

3. The promissory notes that the Defendants sold to investors provided various interest rates ranging from seven to twelve percent per year. Zada, however, told some investors that they would earn as much as 48 percent on their investments.

4. Zada told investors that he would use their funds for oil-related investments. He also told investors that he had exclusive access to these oil-related investments and touted the success of the investments.

5. Zada's representations to investors were false. He did not use the investors' funds as promised. Instead, he operated a Ponzi scheme by using at least \$12.4 million of investors' funds to pay "interest" and, in some cases, principal to previous investors. He used all other available funds to pay his personal expenses and other expenses unrelated to any investments.

6. Zada and Zada Enterprises, directly and indirectly, have engaged, and unless enjoined, will continue to engage, in acts, transactions, practices and courses of business that violate Sections 5(a), 5(c), and Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77e(a), 77e(c), and 77q(a)], and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)], and Rule 10b-5 promulgated thereunder [17 C.F.R. § 240.10b-5].

7. The Commission brings this action to enjoin such acts, transactions, practices, and courses of business pursuant to Section 20(a) of the Securities Act [15 U.S.C. § 78t(a)], and Sections 21(d) and (e) of the Exchange Act [15 U.S.C. §§ 78u(d) and (e)].

DEFENDANTS

8. **Joseph Paul Zada** is 52 years old and a resident of Grosse Pointe Shores, Michigan. In addition to offering investments in his purported oil ventures, Zada was involved

in the equestrian business. Zada is not registered with the Commission in any capacity and has never had any affiliations with any registered broker-dealer or investment adviser.

9. **Zada Enterprises, LLC** is a Michigan limited liability company with its principal place of business in Grosse Pointe Shores, Michigan. Zada formed Zada Enterprises and is the company's president and sole member. The company is not registered with the Commission in any capacity and is not a reporting company.

JURISDICTION

10. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], and Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa]. Venue is proper 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].

11. Defendants transacted business in the Eastern District of Michigan and the acts, transactions, practices, and courses of business constituting the violations alleged herein occurred within the jurisdiction of the United States District Court for the Eastern District of Michigan and elsewhere.

12. 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, transactions, practices, and courses of business alleged herein.

FACTS

Defendants' Offer and Sale of Promissory Notes

13. From at least January 2006 through August 2009, the Defendants offered and sold securities in the form of promissory notes.

14. Through their promissory-note offering, the Defendants raised at least \$27.5 million from at least 60 investors residing in Michigan, Florida, and other locations.

15. The promissory notes stated that investors would receive returns ranging from seven to twelve percent per year. The notes provided that the Defendants would repay the investors the principal amount of the notes plus interest at the end of the notes' terms, which, in most instances, was two months or less.

16. Despite the short-term nature of the notes, the Defendants and the investors treated the notes as long-term investments. In most cases, the Defendants did not return to the investors their principal investments at the end of the notes' terms, and the investors generally did not ask Zada to return their principal. Instead, most of the investors maintained their investments with the Defendants for many months or several years and received purported interest payments from the Defendants on a monthly basis.

The Misrepresentations to Investors

17. The promissory notes did not expressly state how the Defendants would invest the funds. However, Zada orally represented to many of the investors that he would invest their funds in "oil." Zada told other investors that he would invest their funds in actual oil on oil tankers and that he would pool their funds with his own funds to invest in oil overseas. These statements were false because Zada did not invest the investors' funds in oil, or in any oil-related venture, or in any other investment product.

18. Zada made several other representations to investors regarding his purported ties to the oil industry, all of which were false. The misrepresentations included:

A. that he was “connected” with a group in Europe that traded contracts in oil futures, and that only Zada had access to this investment because of his position on the board of directors of an unnamed foreign company;

B. that he had powerful business contacts in oil-producing countries, including Saudi Arabia; and

C. that he obtained a document imprinted with a special “seal” that permitted oil tankers uninterrupted passage through waters adjoining Middle Eastern countries.

19. Zada touted the success of his oil ventures to investors. Zada told some investors that he had earned substantial returns from prior oil investments. He told at least one other investor that the oil investments would earn a return whether oil prices increased or decreased. These statements were false, and Zada knew that they were false.

20. Contrary to the interest rates stated in the promissory notes, Zada falsely told some investors that they would earn a return as high as 48 percent within a short period of time.

21. Zada knew that the representations were false when he made them to investors. Zada knew that he would not use the investors’ funds to invest in oil or in any oil-related venture. He knew that the investors’ funds would not generate any returns from any oil-related investments. He also knew that he did not have any special access, connections, or expertise relating to the oil industry. In short, Zada made material misrepresentations to investors about the nature of their investments, and he did so knowingly.

The Misuse of Investors’ Funds

22. From at least January 2006 through August 2009, Zada raised at least \$27.5 million from at least 60 investors, purportedly for investment in various oil-related ventures.

23. Zada never invested any of the investors' funds in any type of oil-related investments or any other type of investment.

24. Instead, Zada operated a Ponzi scheme by using at least \$12.4 million raised from newer investors to pay "interest" and principal to previous investors.

25. Zada used all other available funds to pay his personal expenses and other expenses unrelated to any investments. For example, Zada used the investors' funds following the following ways, among others:

- A. \$8 million to purchase and improve his personal residences and his equestrian facility;
- B. \$2.3 million to pay personal credit card bills;
- C. \$505,000 to pay insurance premiums;
- D. \$494,000 to pay legal and accounting fees;
- E. \$417,000 for jewelry;
- F. \$221,000 to pay taxes; and
- G. \$103,000 for the purchase of automobiles.

26. Zada did not tell investors that he would use their funds to pay his personal expenses and to pay other expenses unrelated to any investments.

Defendants' Scheme Unravels

27. Beginning in approximately 2007, Zada stopped sending some investors their "interest" payments and did not return principal when requested by other investors.

28. When some investors asked for the return of their funds, Zada told them that the funds were invested overseas and that he could not get them back. This statement was false because Zada did not invest any of their funds overseas or anywhere else.

29. Shortly thereafter, Zada told some investors that he would soon be able to pay them back because he was the illegitimate son of a recently deceased Saudi Arabian oil sheik and was going to receive an inheritance of \$600 million. Zada knew at the time he made this statement that it was false.

30. Beginning in late 2007, Zada and Zada Enterprises signed agreements, entitled “Satisfaction of Debt and Release,” with several investors. In those agreements, the Defendants agreed to make a lump-sum payment to them by a certain date, usually within ten days, as settlement for the principal and interest he owed on the promissory notes. Zada never made any of the promised payments.

31. At various times during 2008 and 2009, Zada sent checks to certain investors. Zada attached a letter to these checks stating that the investor should not deposit the checks until he gave his authorization. The investors never received the authorizations. When investors nevertheless tried to cash the checks, they were returned for insufficient funds.

32. Beginning in 2009, Zada also signed agreements with some investors entitled “Payment, Release, Standstill, and Confidentiality Agreement” (“Standstill Agreement”). In each Standstill Agreement, Zada promised to pay a lump sum that included principal and interest by a date specified. The Standstill Agreement also contained a provision stating that if Zada did not make the specified payment, he would “consent to the immediate entry of a judgment in favor of [the noteholder] . . . in the [state court].” Zada did not make the promised payments.

COUNT I

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

33. Paragraphs 1 through 32 above are re-alleged and incorporated herein by reference.

34. By their conduct, Zada and Zada Enterprises, directly or indirectly: (i) made use of means or instruments of transportation or communication in interstate commerce or of the mails to sell, through the use or medium of a prospectus or otherwise, securities as to which no registration statement was in effect; (ii) for the purpose of sale or delivery after sale, carried or caused to be carried through the mails or in interstate commerce, by any means or instruments of transportation, securities as to which no registration statement was in effect; and (iii) made use of 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 a prospectus or otherwise, securities as to which no registration statement had been filed.

35. No valid registration statement was filed or was in effect with the Commission in connection with Zada's or Zada Enterprises' offer and sale of the promissory notes.

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

COUNT II

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

37. Paragraphs 1 through 32 above are re-alleged and incorporated herein by reference.

38. By their conduct, Zada and Zada Enterprises employed devices, schemes or artifices to defraud in the offer or sale of securities in the form of promissory notes, by the use of the means or instruments of transportation or communication in interstate commerce and by the use of the mails, directly or indirectly.

39. Zada and Zada Enterprises acted with scienter.

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

COUNT III

**Violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act
[15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)]**

41. Paragraphs 1 through 32 above are re-alleged and incorporated herein by reference.

42. By their conduct, Zada and Zada Enterprises, in the offer or sale of securities in the form of promissory notes, by the use of the means or instruments of transportation and communication in interstate commerce and by the use of the mails, directly or indirectly, have obtained money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or have engaged in transactions, practices or courses of business which have operated as a fraud or deceit upon purchasers of securities in the Zada Enterprises program.

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

COUNT IV

**Violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)]
and Rule 10b-5 Thereunder [17 C.F.R. § 240.10b-5]**

44. Paragraphs 1 through 32 above are re-alleged and incorporated herein by reference.

45. By their conduct, Zada and Zada Enterprises, in connection with the purchase or sale of securities in the form of promissory notes, by the use of the means or instrumentalities of

interstate commerce or by the use of the mails, directly or indirectly: (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of material fact and omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices, or courses of business which operated as a fraud or deceit upon other persons, including purchasers and sellers of such securities.

46. Zada and Zada Enterprises acted with scienter.

47. By reason of the foregoing, Zada and Zada Enterprises violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

RELIEF REQUESTED

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

A. Permanently enjoining Zada, his agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from further violations of Sections 5(a), 5(c), 17(a)(1), 17(a) (2) and 17(a) (3) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), and 77q(a)(1), (2) and (3)]; and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 promulgated thereunder [17 C.F.R. § 240.10b-5];

B. Permanently enjoining Zada Enterprises, its officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from further violations of Sections 5(a), 5(c), 17(a)(1), 17(a) (2) and 17(a) (3) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), and 77q(a)(1), (2) and (3)]; and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 promulgated thereunder [17 C.F.R. § 240.10b-5];

C. Ordering the Defendants to disgorge, jointly and severally, their ill-gotten gains, derived directly or indirectly from the conduct complained of herein, together with prejudgment interest thereon;

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

E. Retaining jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and to carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion for additional relief within the jurisdiction of the Court; and

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

Respectfully Submitted,

DATED: November 10, 2010

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