

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
ORLANDO DIVISION

CASE NO.: 6:08-cv-829-ORL-

316JK

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CLERK, US DISTRICT COURT
MIDDLE DISTRICT FLORIDA
ORLANDO, FL

SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

v.

NORTH AMERICAN CLEARING, INC.,
RICHARD L. GOBLE,
BRUCE B. BLATMAN, AND
TIMOTHY J. WARD

Defendants.

COMPLAINT FOR INJUNCTIVE RELIEF

Plaintiff Securities and Exchange Commission alleges and states as follows:

INTRODUCTION

1. This case arises from a fraudulent scheme by Defendants North American Clearing, Inc., Richard L. Goble, Bruce B. Blatman, and Timothy J. Ward to conceal North American's financial crisis and illegally use customer funds to cover its operating expenses.

2. Beginning in early 2008, North American began experiencing a severe financial decline precipitated by at least two major events: (1) the departure of a large client due to the client's exposure to extremely high risk securities (collateralized mortgage obligation securities); and (2) the firm incurred a multi-million dollar loss in connection with customer transactions in a penny stock company.

3. As a result, North American secured a bank loan using customer securities as collateral. This additional debt required North American to increase the reserves held in its

Exclusive Benefit of Customers Account (“EBOC Account”), which is based on North American’s cash liability to its customers. Without sufficient funds in this EBOC Account, the federal securities laws prohibit North American from conducting securities business.

4. The necessity for increased reserves in the EBOC Account further decreased North American’s funds available to meet its daily operating expenses.

5. To keep North American operating, the Defendants repeatedly engaged in fraudulent practices to hide its financial problems and gain access to funds to pay North American’s daily business obligations.

6. Specifically, on several occasions in March and April 2008, the Defendants improperly sold customer money market funds and used those customer funds to pay North American’s business expenses. Additionally, on May 13, 2008, North American manipulated its processing system to overstate net customer money market purchases, which allowed North American to withdraw more than \$3 million from the EBOC Account to pay down a portion of its bank loan.

7. On May 21, 2008, North American ceased securities operations because it was unable to make a required \$1.4 million deposit before opening for business that day. Although North American still faces this capital deficiency, Goble notified North American’s clients the same evening that North American would reopen for business within days, if not sooner. That night, Goble fired the firm’s financial and operations principal, Ward, and North American opened again on May 22, 2008.

8. By engaging in this conduct, the Defendants violated and/or aided and abetted violations of, and unless enjoined, are reasonably likely to continue to violate, the antifraud and customer protection and books and records provisions of the federal securities laws.

DEFENDANTS

9. North American is a Florida corporation with its principal place of business in Longwood, Florida. North American is a general securities and clearing brokerage firm that has been registered with the Commission since 1995. North American is the clearing firm for approximately 40 correspondent brokers and clears transactions for more than 10,000 customer accounts with a value of more than \$500 million.

10. Richard L. Goble is a resident of Heathrow, Florida. He is North American's founder, sole owner, and a director.

11. Bruce B. Blatman is a resident of Oviedo. He has been North American's president since May 2007.

12. Timothy J. Ward is a resident of Debarry, Florida. From August 2007 until May 21, 2008, he was North American's financial and operations principal ("FINOP").

JURISDICTION AND VENUE

13. The Court has jurisdiction over this action pursuant to Sections 21(d) 21(e), and 27 of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78u(d), 78u(e), 78aa].

14. This Court has personal jurisdiction over the Defendants and venue is proper in the Middle District of Florida because all Defendants reside in the Middle District and their acts and transactions forming the basis of this complaint occurred in the Middle District.

15. The Defendants, directly and indirectly, have made use of the means and instrumentalities of interstate commerce, the means and instruments of transportation and communication in interstate commerce, and the mails, in connection with the acts, practices, and courses of business set forth in this complaint.

16. Specifically, the Defendants used the national securities exchanges and over-the-counter markets to conduct the fraudulent transactions and/or used the banks and financial wire services to conduct the fraudulent transactions set forth in this complaint.

FACTUAL ALLEGATIONS

A. North American Faced Severe Financial Problems

17. North American's financial condition has deteriorated continuously since 2007. By early 2008, North American did not have sufficient funds to pay its daily operating expenses and maintain the proper reserve amount in its EBOC Account to protect its customers, as required by the federal securities laws.

18. The decline in North American's financial health started to accelerate in early 2008 after North American decided to stop doing business with a large client because the client owned primarily high-risk securities subject to the downturn in the current housing market and mortgage environment. The loss of this customer reduced North American's assets and revenues.

19. This decline accelerated further when North American lost more than \$7 million in connection with customer transactions in a penny stock company.

20. The Defendants engaged in numerous fraudulent transactions to hide this financial crisis and continue operations, misusing customer funds and placing those funds at risk.

21. The customer protection provisions of the federal securities laws require a broker-dealer to make a periodic computation to determine the amount a broker must keep as a reserve in customer reserve accounts such as North American's EBOC Account. Because North American had pledged its customer securities as collateral for its bank loan, the firm was required to increase the amount kept in its EBOC Account to cover the amount of the bank loan.

Each time North American borrowed under the bank loan, the customer reserve requirement increased, which decreased the amount of cash North American could keep for its daily operations.

22. As of early 2008, North American's financial condition had deteriorated to the point where it could not keep sufficient funds in the EBOC Account *and* pay its daily operating expenses.

B. The Defendants Used Fraudulent Transactions to Hide the Firm's Financial Crisis

23. In order to continuing operating North American, the Defendants engaged in a series of unauthorized and fraudulent transactions to hide the firm's financial crisis from the bank, securities regulators, and its customers. The transactions were designed to gain immediate access to funds to pay North American's operating expenses, which placed customer accounts at risk.

24. Goble exercises complete control over the firm and directed employees, including Blatman and Ward, to engage in these activities. Although Blatman and Ward initially objected to some of these fraudulent transactions, they complied with Goble's demands because of their perception Goble would fire them.

i. North American Used Customer Funds as Unsecured Overnight Loans

25. On several occasions from March through May 2008, Goble directed Blatman, Ward and other employees to conduct unauthorized sales of customer money market funds.

26. By selling the customers out of their money markets, North American freed up money to pay its operating expenses for that day. North American put these customers back in their money market funds after the firm received payments from its business operations the following day.

27. This activity placed customer funds at risk because repayment of these unauthorized sales depended on North American receiving sufficient money from its business operations to repay the customers for transactions, which the customers never authorized in the first place.

28. The Defendants knew this activity was improper because in August 2007, the Financial Industry Regulatory Authority ("FINRA," formerly NASD) had filed a disciplinary proceeding against North American for, among other things, the very same conduct.

29. After FINRA initiated its action, Ward and Blatman discussed this activity in a meeting with Goble. Following the meeting, Ward conducted further research and concluded these unauthorized sales were prohibited by the federal securities laws, which he told Blatman and Goble.

30. Despite Ward's warning, Goble directed Blatman and Ward to continue this practice, which they did.

31. As an example, on April 7, 2008, North American sold a customer's entire \$550,682.64 money market position. North American then wired the sale proceeds to its business operating account.

32. The Defendants engaged in this conduct on at least six days between April 7 and May 9, 2008 by executing more than 90 unauthorized trades for a total transaction value exceeding \$20 million. Blatman admitted North American employed this practice to cover the firm's daily operating expenses.

ii. The Defendants Executed Sham Money Market Purchases to Access Funds

33. On May 13, 2008, Goble unsuccessfully attempted to borrow additional funds from North American's bank credit facility, and also failed to obtain an unsecured loan from

North American's money market fund.

34. Faced with this continuing financial crisis, that afternoon Defendants manipulated North American's account processing system by immediately recording \$5,147,221.30 in money market purchases without offsetting that amount by the amount of money market sales. This action resulted in an apparent increase of cash owed to the money market fund.

35. The amount required to be held in the EBOC Account is based on the firm's cash obligation to customers, not the market value of securities held for the benefit of customers. By overstating the net purchase amount (amount owed to the money market), the firm reduced the reported customer cash in an amount equal to the overstatement. This manipulation freed up funds for North American to use for operating expenses because it reduced the amount the firm had to keep in the EBOC Account.

36. On May 14, 2008, the day after the Defendants overstated the net money market purchases, Goble instructed Ward to prepare a revised computation of the firm's reserve requirement amount that relied on the overstated purchases to reflect North American was required to maintain approximately \$3.4 million less in the EBOC Account.

37. This fraudulent revised computation indicated North American met the necessary reserve amount for the EBOC Account. In reality, North American was several million dollars short of its required reserve under the federal securities laws.

38. Goble then instructed Blatman to wire \$3,325,000 from the EBOC Account into North American's business operating account for the purpose of paying a portion of the debt North American owed under its bank loan.

39. In the normal course of business, only Blatman signs wire transfers, but in this instance Blatman objected and demanded Goble also sign the wire transfer, which Goble did.

C. North American Conducted Securities Business While In Violation of the Commission's Customer Protection Rule

40. Given this shortfall in the required reserve amount, North American was prohibited from conducting securities business on May 14, 2008.

41. The Defendants, however, operated the business that day knowing North American did not have the necessary customer protection reserves.

D. North American Failed to Maintain Accurate Books and Records

42. The Defendants, through the fraudulent transactions described in this complaint, created false entries in North American's books and records, which the firm is required to maintain as true and accurate reflections of North American's operations.

CLAIMS FOR RELIEF

COUNT I

Violations of Section 15(c)(3) of the Exchange Act and Rule 15c3-3 Thereunder

(As to North American)

43. Paragraphs 1 through 42 are realleged and incorporated herein by reference.

44. From at least March 2008 to the present, North American has made use of the mails and the means and instrumentalities of interstate commerce to effect transactions in, or to induce or attempt to induce the purchase or sale of, securities while in contravention of customer protection Rule 15c3-3, which requires a broker-dealer to maintain a customer reserve account with deposits in the amount computed in accordance with Rule 15c3-3a.

45. By reason of the foregoing, North American violated and, unless enjoined, is reasonably likely to continue to violate, Section 15(c)(3) of the Exchange Act [15 U.S.C. § 78o(c)(3)] and Rule 15c3-3 [17 C.F.R. § 240.17a-3] thereunder.

COUNT II

Aiding and Abetting North American's Violations of Section 15(c)(3) of the Exchange Act and Rule 15c3-3 Thereunder

(As to Goble, Blatman and Ward)

46. Paragraphs 1 through 42 are realleged and incorporated herein by reference.

47. From at least March 2008 to the present, North American has made use of the mails and the means and instrumentalities of interstate commerce to effect transactions in, or to induce or attempt to induce the purchase or sale of, securities while in contravention of customer protection Rule 15c3-3, which requires a broker-dealer to maintain a customer reserve account with deposits in the amount computed in accordance with Rule 15c3-3a.

48. Goble, Blatman and Ward, directly and indirectly, from at least March 2008 to the present, aided and abetted North American's violations of Section 15(c)(3) of the Exchange Act and Rule 15c3-3 thereunder.

49. By reason of the foregoing, Goble, Blatman and Ward have, directly or indirectly, violated and, unless enjoined, are reasonably likely to continue to violate, Section 15(c)(3) of the Exchange Act [15 U.S.C. § 78o(c)(3)] and Rule 15c3-3 [17 C.F.R. § 240.15c3-3] thereunder.

COUNT III

Violations of Section 17(a) of the Exchange Act and Rule 17a-3 Thereunder

(As to North American)

50. Paragraphs 1 through 42 are realleged and incorporated herein by reference.

51. From at least March 2008 to the present, North American, while operating as a broker-dealer, has failed to make and keep current, accurate books and records relating to its business.

52. By reason of the foregoing, North American has violated and, unless enjoined,

will continue to violate Section 17(a) of the Exchange Act [15 U.S.C. § 78q(a)] and Rule 17a-3 [17 C.F.R. § 240.17a-3] thereunder.

COUNT IV

**Aiding and Abetting North American's Violations of
Section 17(a) of the Exchange Act and Rule 17a-3 Thereunder**

(As to Goble, Blatman and Ward)

53. Paragraphs 1 through 42 are realleged and incorporated herein by reference.

54. From at least March 2008 to the present, North American, while operating as a broker-dealer, has failed to make and keep current, accurate books and records relating to its business.

55. Goble, Blatman and Ward, directly and indirectly, from at least March 2008 to the present, aided and abetted North American's violations of Section 17(a) of the Exchange Act and Rule 17a-3 thereunder.

56. By reason of the foregoing, Goble, Blatman and Ward have, directly or indirectly, violated and, unless enjoined, are reasonably likely to continue to violate, Section 17(a) of the Exchange Act [15 U.S.C. § 78q(a)] and Rule 17a-3 [17 C.F.R. § 240.17a-3] thereunder.

COUNT V

Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder

(As to all Defendants)

57. Paragraphs 1 through 42 are hereby realleged and are incorporated herein by reference.

58. From at least March 2008 to the present, the Defendants, in connection with the purchase and sale of securities described herein, by the use of the means and instrumentalities of interstate commerce and by use of the mails, directly and indirectly:

- 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 would and did operate as a fraud and deceit upon the purchasers of such securities,
- all as more particularly described above.

59. By reason of the foregoing, the Defendants, directly and indirectly, 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 [17 C.F.R. § 240.10b-5] thereunder.

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests the Court:

I.

Declaratory Relief

Declare, determine and find that the Defendants committed the violations of the federal securities laws alleged in this Complaint.

II.

Temporary Restraining Order, Preliminary and Permanent Injunctive Relief

Issue a Temporary Restraining Order and Preliminary and Permanent Injunctions, restraining and enjoining the Defendants, their officers, agents, servants, employees, and attorneys, and those persons in active concert or participation with them who receive actual notice of the order of injunction, by personal service or otherwise, and each of them, whether as principals or as aiders and abettors, from violating, directly or indirectly, from violating Sections

10(b), 15(c)(3), and 17(a) of the Exchange Act [15 U.S.C §§ 78j(b), 78o(c)(3), 78q(a)] and Rules 10b-5, 15c3-3, 17a-3 [17 C.F.R. §§ 240.10b-5, 15c3-3, 17a-3] thereunder.

III.

Asset Freeze and Sworn Accounting

Issue an Order freezing the assets of North American until further Order of the Court and requiring North American to file sworn accountings with the Court.

IV.

Records Preservation

Issue an Order requiring the Defendants to preserve any records related to the subject matter of this lawsuit that are in their custody or possession or subject to their control.

V.

Appointment of Receiver

Appoint a receiver over all assets held in the name of North American to (1) preserve the status quo; (2) ascertain the financial condition of North American; (3) prevent loss, damage and injury to investors; and (4) preserve the books, records and documents of North American.

VI.

Disgorgement

Issue an Order directing North American and Goble to disgorge all ill-gotten gains, including prejudgment interest, resulting from the acts or courses of conduct alleged in this complaint.

VII.

Penalties

Issue an Order directing all Defendants to pay civil money penalties pursuant to Section

21(d) of the Exchange Act, 15 U.S.C. § 78u(d).

VIII.

Further Relief

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


IX.

Retention of Jurisdiction

Further, the Commission respectfully requests the Court retain jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that it may enter, or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court.

May 27, 2008

Respectfully submitted,

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