

Sealed

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

FILED by _____ D.C.
APR 07 2014
STEVEN M. LARIMORE
CLERK U. S. DIST. CT.
S. D. of FLA. - MIAMI

CASE NO.:

14-80468

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

CIV.-MIDDLEBROOKS

v.

UNDER SEAL

JCS ENTERPRISES, INC., d/b/a JCS
ENTERPRISES SERVICES, INC., T.B.T.I. INC.,
JOSEPH SIGNORE, and PAUL L. SCHUMACK, II,

Defendants.

COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF

Plaintiff Securities and Exchange Commission alleges:

INTRODUCTION

1. The Commission brings this action to enjoin two Florida companies and their principals from continuing to defraud investors through the ongoing sale of securities involving investments in Virtual Concierge machines ("VCMs") in violation of the anti-fraud and registration provisions of the federal securities laws.

2. From at least as early as 2011, JCS Enterprises, Inc. d/b/a JCS Enterprises Services, Inc. ("JCS"), T.B.T.I. Inc. ("T.B.T.I."), through and at the direction of their respective principals Joseph Signore, and Paul L. Schumack, II, fraudulently raised at least \$40 million from hundreds of investors nationwide. The Defendants guaranteed exorbitant returns, ranging from 80 to 120% annually and up to 500% over the life of a three- or four-year investment contract, by guaranteeing a \$300 monthly return for the life of the contract.

3. Signore and Schumack represented to investors their money would be invested in the Virtual Concierge program. Participation in the Virtual Concierge program entailed

purchasing a VCM. The VCMs are free-standing or wall-mounted ATM-like machines the Defendants promised to place at various locations (e.g. hotels, airports, stadiums), to enable businesses to advertise their products and services via touch screen and printable tickets or coupons.

4. The Defendants touted advertising revenue as the driving force backing the guaranteed rate of return. They promised to locate, place, and manage the VCMs to generate the purported advertising revenue to pay investors their returns. Investors did not have to do anything to earn their money.

5. Signore and Schumack touted the VCMs as a revolutionary product and a fail-safe investment. In reality, however, they and their companies operated a Ponzi scheme, where, through numerous misrepresentations and omissions, they used new investor funds to make payments to earlier investors. Advertising revenue was indeed miniscule in comparison to investor funds.

6. Like all Ponzi schemes, this one ultimately collapsed once new investor funds dried up. The majority of investors stopped receiving their monthly payments January 2014. Nevertheless, during this time frame, the Defendants continued to solicit investors.

7. Furthermore, throughout the fraud, the Defendants also siphoned off significant sums of investor money for their own use, including diverting money to themselves and family members, and using money to fund other business ventures, for recreational purposes, and to satisfy financial obligations.

8. Through their conduct, JCS, T.B.T.I., Signore and Schumack each have violated and continue to violate the anti-fraud and registration provisions of the federal securities laws.

9. The Commission seeks an order permanently enjoining the Defendants from further violations of Sections 5(a) and (c) and 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 thereunder [17 C.F.R. §240.10b-5].

10. The Commission also seeks disgorgement of all ill-gotten gains, including prejudgment interest thereon; an order directing the Defendants to pay civil money penalties; and any other relief that may be necessary and appropriate.

DEFENDANTS

11. Signore, 49, is Chairman and President of JCS, and resides in West Palm Beach, Florida. On December 16, 2003, Signore voluntarily petitioned for bankruptcy under Chapter 7 of the United States Bankruptcy Code in the District of New Jersey, and was discharged from this bankruptcy on or about March 4, 2004. On February 10, 2006, Signore was adjudicated guilty per a plea agreement to theft charges emanating from two separate indictments brought by the State of New Jersey. Signore first pled guilty to charges he failed to share the proceeds from the sale of an automobile with a charity to which he was legally obligated. Signore had to pay \$11,475 in restitution to the National Multiple Sclerosis Society, as well as nominal amounts to other organizations, and fees. Signore also pled guilty to unlawfully obtaining vehicles owned by Sears Roebuck & Company, selling the vehicles, and retaining the proceeds for himself and his co-defendant. He was sentenced to four years’ probation, restitution of \$47,850, and other nominal fines and fees.

12. Schumack, 56, is President of T.B.T.I, and resides in Pompano Beach, Florida.

13. JCS is a Delaware corporation, incorporated in 2011, with its principal place of business in Jupiter, Florida. JCS and its investment offerings are not registered with the Commission in any capacity.

14. T.B.T.I. is a Florida corporation, incorporated in 2001, with its principal place of business in Highland Beach and/or Boca Raton, Florida. T.B.T.I. and its investment offerings are not registered with the Commission in any capacity.

JURISDICTION AND VENUE

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

16. This Court has personal jurisdiction over the Defendants, and venue is proper in the Southern District of Florida, because many of the Defendants' acts and transactions constituting violations of the Securities Act and the Exchange Act occurred in the Southern District of Florida. In addition, JCS's and T.B.T.I.'s principal places of business are in the Southern District of Florida, and Signore and Schumack reside in the Southern District of Florida.

17. In connection with the conduct alleged in this Complaint, the Defendants, directly and indirectly, singly or in concert with others, have made use of the means or instrumentalities of interstate commerce, the means or instruments of transportation and communication in interstate commerce, and the mails.

THE FRAUDULENT SCHEME

A. Agreement between JCS and T.B.T.I.

18. In 2011, JCS and T.B.T.I. entered into an agreement, whereby T.B.T.I. would be the sales agent for JCS and the Virtual Concierge program. T.B.T.I. contracted directly with investors.

19. Though JCS had an agreement with T.B.T.I. to be its sales agent, JCS also solicited investors and contracted with them directly.

B. Investor Contracts and Relations

20. Investors entered into contracts with TBTI and also directly with JCS to invest in JCS's Virtual Concierge program. Schumack and Signore, respectively, were signatories to these contracts. Investors could choose between an aggressive or passive option. The aggressive option burdened investors with responsibility, but allowed for greater returns. The passive option left the investor with no responsibility, required no effort, and guaranteed them \$300 monthly returns per VCM. The Defendants continuously and clearly stressed the passive option as the best choice for the investors.

21. The several versions of these passive contracts all required investors to pay a one-time fee, ranging from \$2,600 to \$4,500 per VCM, while guaranteeing exorbitant \$300 monthly returns for a three or four-year period, renewable at the end of the term. As summarized in the "Concept of the Operation" section of T.B.T.I.'s contracts, it required the investors to do nothing except make their initial investment, and insulated the investors from any risk or liability.

22. Investors did not have to install, maintain, update content on, or find a location for, their VCM. They were not liable for theft or damage. Investors were entitled to a full

refund within six months for any reason. A separate clause entitled "Failure to Receive Commissions" in T.B.T.I's contracts explicitly provided that investors would have legal recourse against T.B.T.I. and JCS in the event they did not receive their monthly \$300 returns.

23. The Defendants also promised to inform investors where their VCM was located and give them a password to monitor the activity of their VCM online.

24. The Defendants provided investors with invoices indicating the number of VCMs purchased and their cost. In certain circumstances these invoices included a line-item entitled "Shipping and installation to hotel," without a hotel name.

25. The Defendants permitted the investors to pay via credit card for ease. Despite invoices appearing to have originated from T.B.T.I for those who contracted with T.B.T.I., investor debit statements indicated the investor funds were debited to JCS.

C. Defendants Misled Investors by Misrepresenting Material Facts and Failing to Disclose Material Information

1. Misrepresentations Regarding Exorbitant Rates of Return

26. The Defendants promoted the VCM investment via the internet, email, telephone and in-person seminars. They promoted participation in the Virtual Concierge program as a guaranteed money-making venture. This guarantee was false, as it was based on the improper use of investor funds, not advertising revenue, which the Defendants represented as the basis for the guarantee.

a. Online Misrepresentations

27. JCS marketed participation in the program and its VCMs on its website, <http://jcsenterprise.net>, which was identical to the website <http://makingmoneyvc.com>. JCS's identical websites held out JCS as "an experienced manufacturing, sales and marketing company

located in Jupiter, FL, specializing in Virtual Concierge wall and free standing units for business.” Its websites explained the “endless possibilities” for use of a VCM. On JCS’s dedicated VCM page, it touted the VCMs as “Monthly revenue generating business opportunities.” This was false, as the Defendants were generating virtually no revenue.

28. JCS also promoted VCMs on the internet through YouTube. In one YouTube video, the scene begins with an apparent investor polishing his new Cadillac. The investor’s friend proclaims, “What an amazing car! How can you afford this?” The investor responds, “My Virtual Concierge.” A similar scene then ensues with a different investor showing her friend her new pool. A spokesperson then appears and asks the viewer, “Do you want to make more money? Then it is time for you to own a Virtual Concierge.” After explaining the VCM, and asserting to potential investors that the VCM will “generate income for years,” the spokesperson informs, “You can find a location, or we will find one for you.” He then proclaims, with a corresponding graphic at his side, that with a \$3,500 investment, the investor has the potential for “Huge returns.”

29. The video continues with a testimonial from someone only identified as “Paul,” who claims to be an actual Virtual Concierge program investor who generated a “high six figure income” in his first year of ownership. “Cathi,” an apparent second investor, then appears, and states that in less than a year, she has made close to \$100,000. Afterward, the host reinforces that the investor does not “need any experience or a location. We give you everything you need.” The video then turns to a third investor polishing a different new car and asking his friend what he thinks. The friend responds, “Great new ride.” The investor, unsolicited, states, “Thanks to my Virtual Concierge Business.” The video ends by directing investors to JCS’s website, <http://makingmoneyvc.com>.

30. The concept of “huge” returns for investors was completely illusory. In reality, continued operation of the Virtual Concierge program, as well as monthly payments to investors, depended upon JCS’s and T.B.T.I.’s receipt of new investor funds. The Defendants did not tell investors they were using their investments to pay “returns” to existing investors, or that investors’ own “returns” would depend on new investors purchasing VCMs.

31. In a separate YouTube video, the same spokesperson provides instructions on how to purchase a VCM. The video also directs investors to <http://makingmoneyvc.com>. The spokesperson reiterates that JCS can find the investor a location for the VCM. Instructions are then given to download the buyer agreement and then return it signed via fax, email or U.S. Mail. The spokesperson explains that payment JCS accepts payment online in its “V-Mall”, or via check to JCS’s corporate headquarters. After explaining how to track one’s VCM, the spokesperson proclaims the Defendants will install the investor’s VCM in four to six weeks. In reality, investors could not track the location of their VCMs, and there were not nearly enough VCMs manufactured to keep pace with the investments in them.

32. T.B.T.I. promoted the same VCMs on its website, <http://atmhospitality.com>. T.B.T.I. touted itself as a full-service financial transaction company that had formed strategic alliances with leading industry professionals to provide the best possible service to its clients and commission to its properties. T.B.T.I. promoted VCMs as the “newest addition” to its product line. T.B.T.I.’s website stated, “Our unique concept and highly visual screens provide your guests with the convenience of accessing local and national business offers and savings at the touch of a fingertip.” T.B.T.I.’s website promoted the use of VCMs in hotels, hospitals, stadiums, and at universities. T.B.T.I.’s dedicated VC advertising page stated, “The sky is the limit for

advertising revenue form (*sic*) our Virtual Concierge network!” Correspondence from Schumack to potential investors also directed them to JCS’s YouTube videos and JCS’s website.

33. These promotional videos and websites were glaring falsities perpetuating the fraud. There was virtually no advertising revenue. Thus, the investors were not going to “generate income for years”.

b. Email Correspondence

34. Schumack sent emails soliciting investors, and also sent emails to investors confirming investment return checks had been mailed, and discussed the nuances of the purported status of the investment, including prospective corporate hosts for the VCMs. To give himself the aura of authenticity and gain investors’ trust, Schumack’s oversized and bolded signature block to many of his emails touted his graduation from West Point Military Academy in 1979. Below this was a Bible passage from 1 Corinthians 10:31: “Whatever you do, do it all for the glory of God.” This created a false sense of security for investors.

35. Included in at least one of Schumack’s emails to investors was a message encouraging existing investors to solicit new investors. Included in the email was a pre-prepared email on behalf of investors to use in their solicitations. This email extolled the virtues of the investment opportunity the existing investor had been exposed to and then provided a purported financial analysis as to why the investment was guaranteed to succeed. Schumack then set forth a calculation that represented a VCM would generate \$1,900 a month in revenue, mostly from advertising, and thus after expenses, a VCM would net \$455 a month in profit. There was however, no basis in reality, for this calculation.

c. Employee Sales Meetings and Investor Sales Pitches

36. Signore, at times, would lead in-house sales meetings with his staff. Signore provided marketing materials to his sales staff to distribute to potential investors. Signore provided details to JCS's sales agents as to the passive investment program. Signore never told the sales agents to discuss any risks associated with the investment with investors, and described the \$300 monthly payment as guaranteed.

37. Schumack and representatives from JCS participated in seminars touting investments in the Virtual Concierge program throughout the country. They worked in tandem and referred to the roles of T.B.T.I. and JCS in conjunction with one another. They misled investors into believing that investment in the Virtual Concierge program was a fail-safe investment where they did not have to participate to ensure its success. Moreover, Schumack and the JCS representatives created a false sense of urgency by telling investors they needed to invest immediately to guarantee a receipt of their return by the following month.

38. Schumack also promoted the investment via telephone, making similar representations to potential investors as to the virtues of the passive program and the VMC's guaranteed returns. Schumack stated T.B.T.I. worked "hand-in-glove" in promoting the VCM investment with JCS.

39. Schumack and JCS representatives also gave investors personal tours of JCS's headquarters to provide comfort and confidence in their investments. They told investors of the passive nature of the program, showed promotional videos, gave a guided tour of the facility including the production warehouse, and guaranteed the returns. In reality, the production of VCMs did not come close to the amount of VCMs investors had purchased, and the "guaranteed" returns were a farce.

2. Signore and Schumack Misappropriated Investor Funds

40. In comingling investor money from the JCS accounts, Signore personally used investor funds, including diverting approximately \$2,000,000 to himself, his wife and son. Signore also diverted approximately \$90,000 to a business jointly operated by himself and his wife, and approximately \$44,000 to Schumack personally. Debit charges from JCS accounts indicate expenses such as restaurants, merchandising stores, a tanning salon, and significant other credit card bills, totaling approximately \$56,000. Signore also diverted \$91,000 into a separate business venture of his and his wife. The Defendants certainly did not tell investors they would use their funds for these purposes.

41. Similarly, the money from T.B.T.I.'s accounts where investor funds were deposited was also used for personal expenses. Schumack's wife signed a check for \$500,000, made out to the IRS. Schumack signed a check for \$50,000 for the benefit of another business venture of his. Furthermore, Schumack diverted more than \$100,000 to support the same business venture of Signore and his wife which Signore had diverted funds into from JCS's bank account.

42. Furthermore, T.B.T.I. has transferred approximately \$4 million from its investor account to an unrelated account from which the Schumack and others executed more than 100 cash withdrawals totaling about \$4.8 million – 91% of the total account balance. Schumack and others used another \$23,000 for personal expenses, including restaurants, merchandising stores, and a nutrient therapy center. Again, the Defendants did not tell investors they would use their money for these purposes.

3. Misrepresentations Regarding VCM Placement and Buyback

43. The Defendants told investors they would give them information about the location of their VCMs, and would be able to access this information online through JCS's website. These representations were false. The Defendants did not place VCMs at anywhere near the rate of those purchased by investors. Moreover, the option for investors to track their websites often did not work at all, and to the extent they did, location information was unavailable. Further, the Defendants gave invoices to investors which were ambiguous as to the VCM's locations.

44. T.B.T.I. further misrepresented investors would have the right to sell back their VCMs "for whatever reason," within the first six months of ownership, as stated in their investment contracts, This too was false, as investor requests for repurchases were ignored.

4. The Scheme Unravels Yet Misrepresentations Continue

45. The majority of their investors stopped receiving their monthly payments in approximately January 2014. Immediately prior to that, Schumack continued to lie to investors in an effort to generate more capital by providing a bulletin stating their last opportunity to invest was expiring at year end 2013. Schumack later fabricated excuses to placate irate investors who were no longer receiving their returns, telling them their checks were forthcoming. They were not. Soon thereafter, T.B.T.I. stopped answering its phones.

46. JCS also continued the fraud as when investors began complaining, JCS issued a press release, which it posted on its website, indicating it was investigating the matter. In denying any wrongdoing, JCS placed the blame squarely on T.B.T.I., and claimed it had only an arms-length relationship with T.B.T.I. This was patently false.

47. Additionally, in individual correspondence to its investors, JCS perpetuated the myth that the operation was a legitimate one and that it had been defrauded. JCS then offered a "settlement" of \$300 in exchange for the investor to forego pursuing further legal action. However, it was not JCS which was defrauded -- it was the investors.

48. Further, JCS, despite claiming that the Virtual Concierge program was closed, continued to promote the program on its website and via YouTube.

COUNT I

Sale of Unregistered Securities in Violation of Sections 5(a) and 5(c) of the Securities Act

49. The Commission repeats and realleges paragraphs 1 through 39 of this Complaint as if fully restated herein.

50. No registration statement was filed or in effect with the Commission pursuant to the Securities Act and no exemption from registration exists with respect to the securities and transactions described in this Complaint.

51. The Defendants, from at least as early as 2011, through present directly or indirectly have: (a) made use of the means or instruments of transportation or communication in interstate commerce or of the mails to sell securities, through the use or medium of a prospectus or otherwise; (b) carried securities or caused such securities to be carried through the mails or in interstate commerce, by any means or instruments of transportation, for the purpose of sale or delivery after sale; and (c) 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 any prospectus or otherwise, without a registration statement having been filed or being in effect with the Commission as to such securities.

52. By reason of the foregoing, the Defendants directly or indirectly violated, and, unless enjoined, are reasonably likely to continue to violate, Sections 5(a) and 5(c) of the Securities Act of 1933 (the "Securities Act") [15 U.S.C. §§ 77e(a) and 77e(c)].

COUNT II

Fraud in the Offer or Sale of Securities in Violation of Section 17(a)(1) of the Securities Act

53. The Commission repeats and realleges paragraphs 1 through 48 of this Complaint as if fully restated herein.

54. From at least as early as 2011 through the present, the Defendants, directly or indirectly, in the offer or sale of securities, by use of the means or instruments of transportation or communication in interstate commerce and by use of the mails, have knowingly, willfully or recklessly employed devices, schemes or artifices to defraud.

55. By reason of the foregoing, the Defendants directly or indirectly violated, and, unless enjoined, are reasonably likely to continue to violate, Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

COUNT III

Fraud in the Offer or Sale of Securities in Violation of Section 17(a)(2) of the Securities Act

56. The Commission repeats and realleges paragraphs 1 through 39 and 45 through 48 of this Complaint as if fully restated herein.

57. From at least as early as 2011 through the present, the Defendants, directly or indirectly, in the offer or sale of securities, by the use of means or instruments of transportation or communication in interstate commerce, or of the mails have: (a) obtained money or property

by means of untrue statements of material fact or by omitting 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.

58. By reason of the foregoing, the Defendants, directly or indirectly violated, and, unless enjoined, are reasonably likely to continue to violate, Section 17(a)(2) of the Securities Act [15 U.S.C. §§ 77q(a)(2)].

COUNT IV

Fraud in the Offer or Sale of Securities in Violation of Section 17(a)(3) of the Securities Act

59. The Commission repeats and realleges paragraphs 1 through 48 of this Complaint as if fully restated herein.

60. From at least as early as 2011 through the present, the Defendants, directly or indirectly, in the offer or sale of securities, by use of the means or instruments of transportation or communication in interstate commerce and by use of the mails, have engaged in acts, transactions, practices or courses of business which operated as a fraud or deceit upon purchasers of securities.

61. By reason of the foregoing, the Defendants, directly or indirectly violated, and, unless enjoined, are reasonably likely to continue to violate, Section 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(3)].

COUNT V

Fraud in Violation of Section 10(b) and Rule 10b-5(b) of the Exchange Act

62. The Commission repeats and realleges paragraphs 1 through 39 and 45 through 48 of its Complaint.

63. From at least as early as 2011 through the present, the Defendants, directly or indirectly, by use of the means and instrumentalities of interstate commerce, and of the mails in connection with the purchase or sale of securities, knowingly, willfully or recklessly have 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.

64. By reason of the foregoing, the Defendants directly or indirectly violated, and, unless enjoined, are reasonably likely to continue to violate, Section 10(b) of the Exchange Act of 1934 (the "Exchange Act") [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5(b) [17 C.F.R. § 240.10b-5(b)].

COUNT VI

Fraud in Violation of Section 10(b) and Rules 10b-5(a) and (c) of the Exchange Act

65. The Commission repeats and realleges paragraphs 1 through 48 of its Complaint.

66. From at least as early as 2011 through the present, the Defendants, directly or indirectly, by use of the means and instrumentalities of interstate commerce, and of the mails in connection with the purchase or sale of securities, knowingly, willfully or recklessly have: (1) employed devices, schemes or artifices to defraud; or (2) engaged in acts, practices and courses of business which have operated, are now operating and will operate as a fraud upon the purchasers of such securities.

67. By reason of the foregoing, the Defendants directly or indirectly violated, and, unless enjoined, are reasonably likely to continue to violate, Section 10(b) of the Exchange Act of 1934 (the "Exchange Act") [15 U.S.C. § 78j(b)] and Exchange Act Rules 10b-5(a) and (c) [17 C.F.R. § 240.10b-5(a) and (c)].

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that the Court:

I.

Declaratory Relief

Declare, determine and find that the Defendants have committed the violations of the federal securities laws alleged herein.

II.

Temporary Restraining Order, Preliminary Injunction and Permanent Injunction

Issue a Temporary Restraining Order, a Preliminary Injunction and a Permanent Injunction, restraining and enjoining the Defendants their officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from violating Sections 5(a), 5(c), 17(a)(1), (2) and (3) of the Securities Act, and Section 10(b) and Rule 10b-5 of the Exchange Act.

III.

Disgorgement

Issue an Order directing the Defendants to disgorge all ill-gotten gains, including prejudgment interest, resulting from the acts or courses of conduct alleged in this Complaint.

IV.

Penalties

Issue an Order directing all Defendants to pay civil money penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d) for their securities law violations.

V.

Further Relief

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

VI.

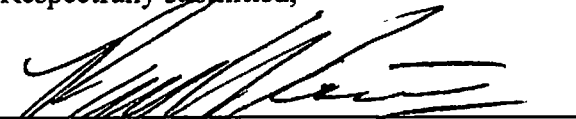
Retention of Jurisdiction

Further, the Commission respectfully requests that 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.

April 7, 2014

Respectfully submitted,

By:



Russell Koonin
Senior Trial Counsel
Florida Bar No. 474479
Telephone: (305) 982-6385
Email: kooninr@sec.gov

Vincent T. Hull
Staff Attorney
Court ID No.: A5501961
Telephone: (305) 982-6364
Email: hullv@sec.gov

Attorneys for Plaintiff
**SECURITIES AND EXCHANGE
COMMISSION**
801 Brickell Avenue, Suite 1800
Miami, Florida 33131
Telephone: (305) 982-6300
Facsimile: (305) 536-4154