

FINANCIAL INDUSTRY REGULATORY AUTHORITY

OFFICE OF HEARING OFFICERS

Department of Enforcement,

Complainant,

v.

Success Trade Securities, Inc.
(CRD No. 46027),

and

Fuad Ahmed (CRD No. 2404244),

Respondents.

DISCIPLINARY PROCEEDING
No. 2012034211301

COMPLAINT AND REQUEST FOR EXPEDITED HEARING

The Department of Enforcement alleges:

SUMMARY

1. This matter concerns securities fraud perpetrated by Respondents Success Trade Securities, Inc. ("STS" or "Firm") and Fuad Ahmed ("Ahmed"), STS's CEO and President. From March 2009 through at least February 2013, Ahmed and STS raised over \$18 million from 58 investors, many of whom are current or former National Football League ("NFL") and National Basketball Association ("NBA") players, through the fraudulent and unregistered sales of promissory notes issued by STS's parent company ("STI Notes"), Success Trade, Inc. ("STI"). As the CEO, President, and sole board member of STI and STS, Ahmed made all of the decisions for both entities at all relevant times.

2. The STI Notes purport to offer annual interest rates ranging from 12% to 26% paid on a monthly basis typically over three years. To meet its monthly interest obligations at these exorbitant rates, STI issued, and Respondents sold, additional STI Notes to new and existing investors.

3. In selling STI Notes, Respondents intentionally misrepresented material facts and omitted to disclose other material facts to investors. Specifically, through their use of false and misleading private placement memoranda, Respondents misrepresented and/or omitted to disclose material facts concerning: (a) the use of investor proceeds; (b) STI's inability to make interest payments to existing noteholders without raising additional capital; (c) the parameters of the STI Note offering; (d) the rate of return on STI Notes; (e) the amount of STI's outstanding debt; and (f) the purported exempt status of the offering. Most notably, Respondents intentionally failed to disclose to investors that Ahmed would be using their money to pay his personal expenditures through what he has referred to as "officer loans." These purported loans are undocumented, unsecured, and interest-free.

4. From November 2012 through at least March 20, 2013, Ahmed and other registered representatives at STS have been soliciting noteholders to either roll over, or extend the terms of, their STI Notes, typically at higher rates of interest, or convert their STI Notes into common stock of STI. STI has been extending and converting existing STI Notes because it has not had the ability to return the principal on them.

5. In soliciting noteholders to extend or convert their STI Notes, Respondents have intentionally failed to disclose to at least two investors STI's dire financial condition and its inability to pay back the principal on the STI Notes that have come due. They also have misrepresented and omitted to disclose material information to at least five investors concerning

a potential acquisition and the potential public listing of STI's common stock on a foreign exchange. As of April 4, 2013, STI had approximately \$25,000 in its bank accounts.

6. By engaging in the foregoing fraudulent conduct, Ahmed and STS willfully violated Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder and also violated FINRA Rules 2020 and 2010.

7. By selling securities in transactions that were not registered with the Securities and Exchange Commission ("SEC") nor exempt from registration with the SEC, Ahmed and STS acted in contravention of Section 5 of the Securities Act of 1933 ("Securities Act") and violated FINRA Rule 2010.

RESPONDENTS AND JURISDICTION

A. Success Trade Securities, Inc.

8. STS is a FINRA member and has been a member since March 11, 1999.

9. STS was founded by Ahmed in 1998. STS is a wholly-owned subsidiary of STI. Ahmed is the majority owner of STI, serves as the CEO, President, and sole board member of both STI and STS, and makes all of the decisions on behalf of each company.

10. STS is a deep discount online broker that provides order-entry services to retail investors who direct their own trading. STS operates under two divisions: Just2Trade and LowTrades. STS's trading platform became operational in 2007.

11. STS maintains its principal place of business in Washington, D.C. and has a branch office in McLean, Virginia. Approximately 10 registered persons and five non-registered persons currently are associated with the Firm. Approximately three of the Firm's registered representatives also are employees of JPW, a state-registered investment adviser and an

independent contractor of STS, which operates out of the STS branch office in McLean, Virginia.

12. By virtue of its current FINRA membership, FINRA possess jurisdiction over STS under Article IV of FINRA's By-Laws.

B. Fuad Ahmed

13. Ahmed first entered the securities industry in 1993. He first became registered on June 29, 1994 as a Series 7 (General Securities Representative). He subsequently acquired his Series 4, 24, 27, 63, and 65 securities licenses. He worked for four different broker-dealers before starting STS in 1998.

14. Ahmed currently is registered with STS and has been registered with the Firm since September 1, 1999. At all relevant times, Ahmed has been the CEO, President, and sole board member of STS and STI and has made all decisions on behalf of both entities.

15. By virtue of Ahmed's current association and current registration with STS, FINRA possesses jurisdiction over Ahmed under Article V of its By-Laws.

FACTS

A. Success Trade, Inc.

16. STI is a District of Columbia corporation founded in 1999 by Ahmed.

17. STI is the parent and holding company of STS and BP Trade, Inc., a software company that designs trading applications that provide order-entry, routing, execution, and risk management solutions. STI has no business function other than acting as a holding company for STS and BP Trade, Inc.

18. At all relevant times herein, Ahmed was the sole officer and director of STI and was responsible for making all decisions on behalf of STI. Ahmed owns approximately 70% of STI.

19. At all relevant times herein, STI and its subsidiaries acted by and through Ahmed and STI's and its subsidiaries' employees. STS acted by and through Ahmed as well as its registered representatives. Ahmed was an employee of STI and STS and was acting in the course and scope of his respective employments when he committed the violations set forth herein.

B. The STI Note Offering

20. From March 2009 through at least February 2012, Ahmed directly or indirectly through STS registered representatives sold at least \$18 million in STI Notes to investors, most of whom are current or former NFL and NBA players.

21. The STS registered representatives who sold the STI Notes also were registered or affiliated with JPW. Typically, investors were introduced to STI through JPW. All, or substantially all, of the STI noteholders were investment advisory clients of JPW and customers of STS.

22. STI funded JPW's operations from approximately March 2009 through March 2010.

23. From March 2009 through February 2013, Respondents sold 104 STI Notes to 58 investors. The STI Notes are convertible into common stock of STI at \$2.00 per share on the noteholder's request.

24. The STI Notes typically have maturity dates of 36 months, and some have been extended for additional terms.

25. The STI Notes purport to pay annual interest rates ranging from 12% to 26%. Interest on the STI Notes is required to be paid monthly. Ahmed negotiated the rates and terms of each promissory note for STI.

26. Respondents offered and sold the STI Notes pursuant to four versions of a private placement memorandum that was drafted, authorized, and approved for use by Ahmed. In sum, Ahmed had ultimate authority over the contents of the memoranda. The four private placement memoranda are dated January 1, 2009, February 1, 2009, September 29, 2009, and November 30, 2009 ("November 2009 PPM") (collectively, "PPMs").

27. At least 73 of the 104 STI Notes were issued pursuant to the November 2009 PPM. On June 30, 2010, STI, acting through Ahmed, prepared a supplement to the November 2009 PPM that was provided to at least 18 investors ("Supplement").

28. In addition to the PPM, Respondents provided each noteholder with a subscription agreement, accredited investor questionnaire, and promissory note. Ahmed signed each promissory note and subscription agreement for STI. After the STI Notes were sold, Respondents caused most of the Notes to be held or placed in the noteholders' STS brokerage accounts.

29. In connection with their sales of STI Notes, Respondents employed the means or instrumentality of interstate commerce or the mails, including speaking with investors over the phone about the investment and mailing the PPMs and other documents concerning STI to investors.

C. STI's Dire Financial Condition

30. Since March 2009, STI has not generated sufficient revenue to pay its expenses, including principal and interest owed on STI Notes. STI has relied primarily on capital raised from the sale of STI Notes to keep the company solvent. In fact, the only way STI has been able to meet its monthly interest obligations on the STI Notes is by selling additional STI Notes and using those proceeds to make payments to existing noteholders. For example:

a. On August 15, 2012, STI deposited \$100,000 into its bank account, which came from Respondents' sale of an STI Note to Investor A. At the time of the deposit, STI had only \$9,055.47 in its bank account. On August 17, 2012, STI deposited an additional \$100,000 into its bank account, which came from Respondents' sale of another STI Note to Investor B, for a total of \$209,055.47 in available cash. On that same day, STI, acting through Ahmed and using the proceeds from Investor A's and Investor B's investments, made interest payments to 42 investors totaling \$121,294.82.

b. On August 31, 2012, STI deposited \$50,000 into its bank account, which came from the sale of an STI Note to Investor C. At the time of the deposit, STI had only \$4,647.75 in its bank account. On September 4, 2012, STI, acting through Ahmed and using the proceeds from Investor C's investment, made a \$16,000 in interest payment to another investor.

31. STS, which was the only source of operational revenue for STI, has never generated sufficient revenue to pay its own operating expenses and the expenses of STI. STS has generated only approximately half of the business necessary to be profitable at the commission rates the Firm charged its customers. Despite the operating losses at STS, STI's

only source of cash, other than proceeds from the sale of STI Notes, has been approximately \$25,000 in management fees that it receives from STS each month.

32. At all relevant times herein, STI's monthly expenses have greatly exceeded the management fees it has received from STS. For example, during February 2013, STI incurred expenses in excess of \$355,000, of which approximately \$113,000 was interest obligations to its noteholders, and received no money from STS.

D. Respondents' Fraudulent Sales of STI Notes

1. Misrepresentations and Omissions Regarding the Use of STI Note Proceeds

33. Respondents intentionally or, at least recklessly, made material misrepresentations and omitted to disclose material facts in the PPMs and Supplement concerning the use of investor proceeds. Respondents duped investors into believing that their funds would be used in accordance with the terms and uses described in the PPMs or Supplement, when, in fact, Ahmed intentionally caused their funds to be used for other, undisclosed purposes.

34. The PPMs and Supplement each set forth a chart detailing the permissible uses of the proceeds, which included, among other things, advertising, data center infrastructure, other capital investments, share buyback, and debt retirement.

35. The PPMs, however, were misleading because they failed to disclose that Ahmed also intended to use the proceeds to: (a) pay noteholder interest (approximately \$4 million); (b) pay his own personal expenditures through purported undocumented, interest-free loans (approximately \$794,000); (c) pay the lease on his Range Rover (approximately \$1,300 per month); (d) pay money to his brother through undocumented, interest-free loans (approximately

\$82,000); (e) make payments to JPW – whose dually-registered agents sold the STI Notes (approximately \$1.25 million); and (f) trade in STI’s brokerage account.

36. For example, on June 12, 2009, STI deposited \$50,000 into its bank account from the sale of an STI Note to Investor D. That same day, STI, acting through Ahmed, used Investor D’s funds to: (a) provide \$10,000 to Ahmed’s brother; (b) pay noteholder interest of \$1,041; (c) provide \$7,800 to JPW for its payroll; and (d) provide himself with a \$1,860 “officer loan.”

37. Ahmed used investor proceeds to provide himself with purported undocumented, unsecured, and interest-free “officer loans” that he used to pay for, among other things, the balances on his personal credit cards, his personal travel, and his clothes.

38. The Supplement omitted the same information as the PPMs, with the exception that it disclosed the loans to JPW. However, the Supplement omitted to disclose that the loans made to JPW were funded, in part, from the proceeds of sales of STI Notes. This omission was material and also was misleading because the Supplement described how the proceeds of the STI Note offering had been used to date and that description did not include loans to JPW.

2. Misrepresentations and Omissions Concerning the Size of the Offering and STI’s Outstanding Note Debt

39. The January 1, 2009 PPM provided that STI would raise a maximum of \$7.5 million through the offering. All subsequent versions of the PPM provided that STI would raise a maximum of \$5 million through the offering. However, Respondents intentionally raised over \$18 million through the offering. Nonetheless, Respondents intentionally or, at the least, recklessly continued to provide investors with the November 2009 PPM through at least November 2012, despite the fact that the maximum offering amount of \$5 million had already been exceeded by July 2011.

40. The November 2009 PPM also falsely provided that STI Notes were being offered at interest rates of 12.5%, when, in fact, noteholders were offered and provided interest rates ranging from 12% to 26%. Respondents intentionally or, at least, recklessly made this material misrepresentation to investors.

41. In addition, the November 2009 PPM contained material misleading information concerning STI's outstanding notes and indebtedness.

42. In three sections within the November 2009 PPM, STI falsely indicated that it had outstanding note obligations of approximately \$1.7 million. In fact, as of November 30, 2009, the date of the PPM, STI owed an additional \$1.58 million to investors who purchased STI Notes from March 2009 through November 2009. As such, Respondents, acting through Ahmed, intentionally or, at least, recklessly led investors to believe that STI had \$1.7 million in outstanding notes, when it actually had nearly double that amount – \$3.28 million – in outstanding notes. Information concerning the outstanding debt obligations of STI is material to prospective investors. Respondents nonetheless continued to use the November 2009 PPM through at least November 2012, and the representation that STI had outstanding note obligations of approximately \$1.7 million was never amended, even as STI raised more capital and increased its outstanding note debt. By late 2012, when investors were still being provided with the November 2009 PPM, the outstanding STI Note balance had ballooned to \$14 million.

3. Misrepresentations Concerning Rates of Return

43. Respondents, acting through Ahmed, intentionally or, at least, recklessly made material misrepresentations concerning the rates of return on the STI Notes and extensions of STI Notes. STI, acting through Ahmed, promised to pay 12% percent to 26% returns, when STI

had little or no ability to pay such returns without raising more money from new or existing investors.

44. The promise to pay, and the actual payment of, those returns led investors to believe that STI had the ability to pay those returns and that those returns were being generated from the business activities of STI and its broker-dealer and other subsidiary.

45. Respondents knew, or were reckless in not knowing, that STI did not have the ability to pay the interest rates offered through the business activities of STI and its subsidiaries.

46. Ahmed was responsible for negotiating the rates of returns on the STI Notes and extensions. Ahmed intentionally offered those rates of return to initially attract investors and then lulled them into extending their STI Notes in order to conceal STI's inability to pay the principal and interest due on them.

4. Misrepresentations Concerning Registration Status

47. Section 5 of the Securities Act makes it unlawful to sell or offer to sell a security for which no registration statement is in effect, unless there is an exemption from registration.

48. Rule 506 of Regulation D of the Securities Act ("Rule 506") provides a safe harbor for the private offering exemption of Section 4(2) of the Securities Act.

49. Generally, Rule 506 provides a safe harbor for the offer and sale of securities in private offerings that do not involve more than 35 non-accredited investors and where non-accredited investors involved are sophisticated, i.e., have such knowledge and experience in financial and business matters that they are capable of evaluating the merits and risks of the prospective investment.

50. In order to rely on the Rule 506 safe harbor, the issuer of the securities must file a Form D notice of the offering with the SEC.

51. Respondents intentionally or, at the least, recklessly made a material false statement in the PPMs by representing that the STI Note offering was made pursuant to a registration exemption available under Rule 506.

52. The statement was false and misleading because STI never took any steps to qualify for the safe harbor under Rule 506. In fact, STI never filed a Form D for the offering with the SEC.

53. STI also did not qualify for the Rule 506 safe harbor because STI Notes were sold to at least 19 non-accredited who were also unsophisticated investors.

**E. Respondents Lull Noteholders by Extending Maturing STI Notes and
Converting Maturing STI Notes into STI Common Stock**

54. In 2012, when the STI Notes issued in 2009 approached their maturity dates, Ahmed knew that STI did not have the funds to pay back the principal on maturing notes. Therefore, he began to lull investors with the opportunity to extend their STI Notes, typically at higher rates of interest, or to convert them into common stock of STI. Ahmed offered some STI noteholders the opportunity to convert their STI Notes into common stock at prices ranging from \$1.25 to \$2.00 per share.

55. Specifically, from November 2012 through February 2013, Respondents, through Ahmed, convinced at least five STI noteholders to agree to short-term extensions on their STI Notes, typically two to three months, or to convert their STI Notes into STI stock. Ahmed misled them to believe that STI would acquire an Australian online broker-dealer for approximately \$15.6 million in cash by April 2013 and would then publicly list STI common

stock on a foreign exchange between April 2013 and June 2013. Those statements were untrue statements of material facts.

56. Ahmed admitted that during these conversations with STI noteholders, he failed to disclose to at least two of the five investors, Investor E and Investor F, STI's dire financial condition and inability to repay principal or make future interest payments without raising new capital. These omissions were material.

57. Ahmed told noteholders, as well as the STS registered representatives, that STI was projected to list on a European exchange at approximately \$6.40 per share.

58. Ahmed's representations concerning the public listing of STI and the acquisition of the Australian broker-dealer were misleading.

59. Ahmed had no reasonable basis to conclude that STI's stock would open at \$6.40 per share or that STI would be able to list on any exchange by June 2013. At the time of the representations, Ahmed knew, or was reckless in not knowing, that STI still had substantial steps to take towards listing its stock. Specifically, STI had not (a) made any applications to any exchanges, (b) registered or taken any steps towards registering its stock with a foreign securities regulatory authority, or (c) identified a market maker for the stock.

60. Ahmed's representations concerning the purchase of the Australian online broker by April 2013 were misleading because Ahmed knew, or was reckless in not knowing, that STI could not complete the acquisition by April 2013.

61. When Respondents, through Ahmed, made the representations to STI noteholders, STI had insufficient funds to purchase the Australian company and had no financing commitments or expressions of interest from lenders to fund the \$15.6 million purchase price.

**FIRST CAUSE OF ACTION
(Misrepresentations and Material Omissions of Fact)
(Section 10(b) of the Exchange Act, Rule 10b-5 thereunder
and FINRA Rules 2020 and 2010)**

62. The Department realleges and incorporates by reference paragraphs 1 through 61 above.

63. Section 10(b) of the Exchange Act and Rule 10b-5 thereunder make it unlawful for any person, by the use of any means or instrumentality of interstate commerce, or of the mails, to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, in connection with the purchase or sale of a security.

64. FINRA Rule 2020 likewise provides that: “No member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.”

65. FINRA Rule 2010 requires members and associated persons, in the conduct of their business, to “observe high standards of commercial honor and just and equitable principals of trade.”

66. From March 2009 through at least February 2013, as result of the conduct alleged herein, Respondents Ahmed and STS, knowingly or, at the least, recklessly, in connection with the purchase or sale of securities, directly or indirectly, by use of the means or instrumentality of interstate commerce or of the mails, made untrue statements of material facts 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, through their sales of STI Notes and other securities.

67. Specifically, the misrepresentations and omissions are: (a) the use of investor proceeds; (b) STI's inability to make interest and principal payments to existing noteholders without raising additional capital; (c) the parameters of the STI Note offering; (d) the rate of return on STI Notes; (e) the amount of STI's outstanding debt; (f) the purported exempt status of the offering; (g) the purported acquisition of an Australian broker-dealer; and (h) the purported listing of STI stock.

68. All of the misrepresentations and omissions alleged herein were material.

69. In connection with their sales of STI Notes and STI stock, Respondents employed the means or instrumentality of interstate commerce, including phone calls to customers, and the use of the mails to send PPMs and other investment-related documents to customers.

70. By engaging in the foregoing conduct, Respondents Ahmed and STS willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 and also violated FINRA Rules 2020 and 2010.

**SECOND CAUSE OF ACTION
(Unregistered Securities—Sales of)
(FINRA Rule 2010 by Virtue of Contravening
Section 5 of the Securities Act)**

71. The Department realleges and incorporates by reference paragraphs 1 through 70 above.

72. As a result of the conduct alleged herein, Respondents Ahmed and STS, directly or indirectly, made use of the means or instruments of transportation or communication in

interstate commerce or of the mails, to offer to sell or to sell securities, or to carry or cause such securities to be carried through the mails or in interstate commerce for the purpose or sale or for delivery after sale.

73. No valid registration statement has been filed with the SEC or has been in effect with respect to any offering or sale of the STI Notes, and the subject sales of STI Notes are not exempt from registration with the SEC.

74. By virtue of the foregoing, Respondents Ahmed and STS participated in, and/or caused, the unregistered offer and sale of securities – the STI Notes – in contravention of Section 5 of the Securities Act. By doing so, Respondents violated FINRA Rule 2010.

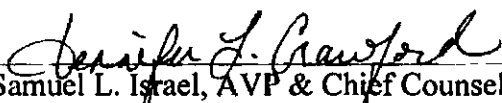
RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondents committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including the Respondents be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest;
- C. order that Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330; and
- D. make specific findings that Respondents willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

FINRA DEPARTMENT OF ENFORCEMENT

Date: April 10, 2013


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