

1 MARC J. FAGEL (Cal. Bar No. 154425)
fagelm@sec.gov
2 MICHAEL S. DICKE (Cal. Bar No. 158187)
dickem@sec.gov
3 ROBERT L. MITCHELL (Cal. Bar No. 161354)
mitchellr@sec.gov
4 VICTOR HONG (Cal. Bar No. 165938)
hongv@sec.gov

5 Attorneys for Plaintiff
6 SECURITIES AND EXCHANGE
COMMISSION
7 44 Montgomery Street, Suite 2600
San Francisco, California 94104
8 Telephone: (415) 705-2500
9 Facsimile: (415) 705-2501

10 UNITED STATES DISTRICT COURT
11 EASTERN DISTRICT OF WASHINGTON
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13 SECURITIES AND EXCHANGE COMMISSION,
14 Plaintiff,
15 v.
16 CRAIG T. JOLLY and QUEST HOLDINGS, INC.,
17 Defendants.
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Case No. CV-09-38-EFS

COMPLAINT

19 Plaintiff Securities and Exchange Commission (“Commission”) alleges:

20 **SUMMARY OF THE ACTION**

21 1. This matter involves a Ponzi scheme funded through the issuance of
22 unregistered securities. Between February 2006 and March 2008, Craig T. Jolly,
23 through his Spokane, Washington-based company, Quest Holdings, Inc. (“Quest” or
24 the “Company”), raised approximately \$4 million from more than 200 investors. Jolly
25 and Quest (together, “Defendants”) raised these funds through the issuance of short-
26 term securities promising *monthly* interest rates as high as 19.5 percent. Jolly claimed
27 that Quest’s business model was to be “active in the investment community and
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1 financial markets” and falsely assured investors that the Company had a reserve fund
2 to ensure they would be repaid.

3 2. In reality, Defendants used only approximately one-third of all the
4 investor funds they received to make investments on behalf of Quest, on which they
5 suffered hundreds of thousands of dollars in trading losses. In addition, Jolly
6 misappropriated at least \$628,000 of investor funds for himself, which he used for his
7 own stock trading and to pay for his vehicles, medical bills and other personal
8 expenses. Thus, although Quest has repaid approximately \$1.7 million to some
9 investors, due to Quest’s trading losses and Jolly’s misappropriation, these payments
10 were nothing more than a Ponzi scheme—they came not from Quest’s earnings on its
11 investment activities, but rather from funds provided by later investors.

12 3. In light of Quest’s steep investment losses and Jolly’s misappropriation of
13 funds, Defendants knew, or were reckless in not knowing, that Quest could not
14 generate sufficient income to pay the monthly returns Defendants promised to
15 investors. Nevertheless, as late as February 2008, Jolly reassured investors that there
16 was “no reason” why the program could not continue indefinitely. Despite these
17 assurances, Jolly shuttered the business the following month, shortly after he learned
18 of an investigation by the Commission staff into Quest’s activities.

19 4. Jolly and Quest violated the antifraud provisions of the federal securities
20 laws by misappropriating investor funds for personal use, and by making materially
21 false and misleading statements and omissions in connection with the offer, purchase
22 and sale of securities. In addition, Jolly and Quest violated the registration provisions
23 of the federal securities laws by issuing securities on behalf of Quest without filing
24 with the Commission a registration statement, which would have provided investors
25 with important information about Quest’s business and finances.

26 5. As a result of these violations, the Commission brings this action to
27 require that Defendants account for all investor funds they received, disgorge all of
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1 their ill-gotten gains plus prejudgment interest, pay civil money penalties, and be
2 enjoined from future violations of the federal securities laws.

3 **JURISDICTION**

4 6. The Commission brings this action pursuant to Sections 20(b) and 20(d)
5 of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77t(b) and 77t(d)] and
6 Sections 21(d) and 21(e) of the Securities Exchange Act of 1934 ("Exchange Act")
7 [15 U.S.C. §§ 78u(d) and 78u(e)]. This Court has jurisdiction over this action pursuant
8 to Sections 20(d)(1) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(d)(1) and
9 77v(a)] and Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d),
10 78u(e), and 78aa]. Defendant, directly or indirectly, has made use of the means and
11 instrumentalities of interstate commerce or of the mails in connection with the acts,
12 transactions, practices, and courses of business alleged in this complaint.

13 7. Venue in this District is proper pursuant to Section 22(a) of the Securities
14 Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa],
15 because defendants Jolly and Quest Holdings reside in, and a substantial portion of the
16 conduct alleged in this complaint occurred within, the Eastern District of Washington.

17 **DEFENDANTS**

18 8. Defendant Craig T. Jolly is a resident of Spokane, Washington. Jolly
19 formed defendant Quest Holdings, Inc. and was its President, sole shareholder and sole
20 employee. In testimony, as part of an investigation conducted by the Commission staff
21 prior to the filing of this lawsuit, Jolly asserted his Fifth Amendment privilege against
22 self-incrimination with respect to questions about his use of Quest investor funds, the
23 destruction of documents relating to Quest, and the location of certain of his and
24 Quest's financial accounts.

25 9. Defendant Quest Holdings, Inc. was incorporated in Nevada in February
26 2006 and operated out of Jolly's home in Spokane, Washington. Quest solicited
27 investor funds primarily through a website it controlled, called EarnByLoaning (or
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1 “EBL”). Investors forwarded funds to Quest through multiple financial institutions
2 located in at least two states.

3 **FACTUAL ALLEGATIONS**

4 **A. Quest and Jolly Raised Approximately \$4 Million Between February**
5 **2006 and March 2008**

6 10. From February 2006 through March 2008, Quest and Jolly raised
7 approximately \$4 million from more than 200 investors in at least 37 states and 21
8 countries. Defendants offered Quest securities in the form of a purported loan program
9 in which members loaned money to Quest and earned interest as set forth in a
10 document described as a Lenders Agreement.

11 11. Although the terms varied, the loans generally promised simple interest
12 ranging from 6% to 19.5% *per month* for periods from 30 to one year. In addition,
13 Quest promised a 5% commission to any investor who brought in new investors who
14 loaned Quest money. Thus, in the first year of a referred investor’s relationship, Quest
15 could be required to pay interest totaling as much as 239% ((19.5% x 12) + 5%) of the
16 loaned amount.

17 12. Defendants offered and sold Quest securities, and raised funds, through
18 Quest’s website EarnByLoaning, which described Quest’s business and which allowed
19 investors to transfer funds and view their purported account balances. The website
20 claimed: “There is one MAJOR difference between investing in other programs and
21 lending to EBL. With EBL, we return your principle [sic] along with the rate of
22 interest set in your contract. We are obligated to because this is a loan, it’s not a blind
23 investment. Hence, the required contract backed by the U.S. judicial system.” [sic]

24 13. Defendants offered Quest securities without filing a registration statement
25 with the Commission and without having a registration statement in effect as to such
26 securities, as required by law. Had Quest filed such a registration statement, investors
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1 would have had access to important information about Quest's business and its
2 finances before they invested with the Company.

3 14. Quest and Jolly used the instrumentalities of interstate commerce to
4 advance their scheme. At all relevant times, Quest's program was available to the
5 investing public through its EarnByLoaning website. In addition, some investors
6 learned of the Company on Internet discussion forums touting various so-called high-
7 yield investment programs such as Quest's. Quest also held conference calls for
8 investors and also provided a template for investors to create their own websites to
9 help market the Company. Defendants collected investor money through financial
10 institutions located in at least two states.

11 15. As Quest's sole officer, director and employee, Jolly closely ran the
12 Company's operations. In testimony during the Commission staff's investigation,
13 Jolly admitted that he "manage[d] all day to day functions of the business, banking,
14 trading [and] investments, just pretty much everything integral to day to day
15 operations." Jolly also had signature authority on the Company's bank and brokerage
16 accounts, determined the rates offered by the Company and controlled the EBL
17 website's content. In fact, Jolly boasted to investors of his intimate knowledge of the
18 Company's finances. According to an audio recording of a February 2008 conference
19 call held with Quest investors, Jolly stated, "The reality is I see all the money and I see
20 it all the time. And it stares at me every day of the week. And I know what's coming
21 and what's going. And what it takes to keep it circulating and to make the returns and
22 everything else."

23 16. Quest investors forwarded funds to the Company through its accounts at
24 multiple financial institutions. However, rather than segregate each investor's funds
25 into a separate account, Defendants treated investor funds as a common pool. As Jolly
26 testified during the Commission staff's investigation, Quest's investors "don't
27 individually earn on their specific money. Nobody in there actually has a block of
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1 money where they loan \$10,000 and the company specifically went out to that
2 \$10,000, invested it on their behalf and paid them back.”

3 **B. Defendants Claimed that Quest Was Active in the Investment**
4 **Community and Financial Markets**

5 17. In testimony during the Commission staff’s investigation, Jolly claimed
6 that his business plan was to “borrow money, invest the money, make returns, [and]
7 pay the loans off.” Similarly, when asked in an online interview by a potential investor
8 to describe what Quest Holdings does to generate returns Jolly responded, “We are
9 active in the investment community and financial markets.” At another time, Quest
10 disclosed on its EBL website’s discussion forum that it trades in “Small Caps/OTC.”

11 18. However, in other communications with investors, Jolly claimed that he
12 could not tell investors how he would invest the funds because doing so would
13 purportedly transform the instruments into securities and subject Quest to regulation by
14 the Commission. Similarly, in a conference call with investors on or about February 4,
15 2008, Jolly claimed that the Commission would not investigate his activities: “The
16 other thing that people have to understand, too, is that the SEC is a very small
17 organization and it governs the markets in the United States The SEC has no time
18 or interest in wasting their day looking around for somebody like us[.]”

19 **C. Jolly Misappropriated Funds, and Defendants Operated a Ponzi**
20 **Scheme and Lied to Investors**

21 19. As discussed below, of the approximately \$4 million of investor funds
22 that Defendants raised, they used only a fraction to make investments on behalf of
23 Quest, on which Quest suffered substantial trading losses. In addition, Jolly
24 misappropriated at least \$628,000 in investor funds for his own use. Finally,
25 Defendants used at least \$1.7 million in investor funds to run a Ponzi scheme.

26 20. From March 2006 through May 2008, Defendants deposited
27 approximately \$1.36 million in investor funds into a brokerage account in Quest’s
28 name at E-Trade Securities (“E-Trade”). As of May 2008, Quest had suffered net

1 realized and unrealized losses of approximately \$729,000 from trades in its E-Trade
2 account. The E-Trade account was the only brokerage account that Quest maintained
3 for investing funds it received through its loan program.

4 21. In addition to the trading losses Quest suffered, Jolly misappropriated at
5 least \$628,000 in investor funds. Jolly transferred \$300,000 from Quest's bank
6 account to his personal brokerage accounts in September and October 2007. Jolly also
7 used Quest's company financial accounts for his own use to pay personal expenses
8 totaling at least \$328,000. Among other things, Jolly used Quest investor funds to pay
9 for his all-terrain vehicle, a tractor rental, medical bills related to his hand injury, car
10 payments on his Toyota Tundra truck and payments for tools and property supplies.
11 During testimony in the investigation by the Commission's staff, Jolly asserted his
12 Fifth Amendment privilege against self-incrimination and refused to answer questions
13 regarding his use of investor funds.

14 22. Jolly falsely told investors that he was not operating a Ponzi scheme and
15 was not using investor funds to repay other investors. Jolly also failed to disclose to
16 investors that he was converting a material percentage of their funds to his personal
17 use.

18 23. As a result of Quest's trading losses and Jolly's misappropriation, Quest
19 could not generate sufficient income to meet its obligations to investors. Instead,
20 Defendants ran a Ponzi scheme, using funds obtained from later investors to meet
21 Quest's payment obligations to earlier investors. From June 2006 to April 2008,
22 Defendants used at least \$1.7 million in investor funds to make payments to earlier
23 investors.

24 24. In order to induce people to invest with Quest, Defendants lied to
25 investors and omitted material information regarding Quest's business and finances.
26 Among other things, throughout the period of Quest's operations Jolly falsely claimed
27 that Quest was generating sufficient returns to repay investors. For example, during a
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1 conference call with investors as late as February 4, 2008, Jolly stated that the program
2 “can run for any amount of time” and that there was “[n]o reason for it not to continue
3 indefinitely.” In fact, as described above, as a result of Jolly’s misappropriation of
4 investor funds and Quest’s trading losses, Quest’s returns did not approach the levels
5 needed to repay investors.

6 25. Further, Jolly falsely told investors that Quest maintained a reserve fund
7 that was “building all the time.”

8 26. The Defendants, and each of them, knew, or were reckless in not
9 knowing, that their misrepresentations and omissions of fact regarding Quest’s
10 business and its finances-- including but not limited to Quest’s use of investor funds to
11 repay earlier investors, Jolly’s misappropriation of investor funds, and the purported
12 existence of a Quest reserve fund--were materially false and misleading.

13 **D. After Learning of the Commission Staff’s Investigation, Jolly Shut**
14 **Down the Quest Website And Transferred Some Investor Funds Out**
15 **of the Country**

16 27. In early March 2008, a Quest investor informed Jolly that he had been
17 contacted by the Commission staff as part of an investigation concerning Quest. One
18 week later, on or about March 14, 2008, Jolly shut down Quest’s EarnByLoaning
19 website. On or about March 15, 2008, Jolly sent an e-mail to his investors stating,
20 among other things, that “Quest Holdings, Inc. [sic] Due to unforeseen circumstances
21 needs to discontinue operations. We feel this is in the best interest of all parties.”

22 28. That same month, between March 14 and March 18, 2008, Jolly
23 transferred at least \$100,000 in Quest investor funds to Panama and then to Belize,
24 purportedly to buy an undeveloped real estate project in Belize.

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1 **FIRST CLAIM FOR RELIEF**

2 **(Violations of Section 5(a) of the Securities Act)**

3 29. The Commission hereby incorporates and realleges here paragraphs 1
4 through 28, above.

5 30. By engaging in the acts and conduct alleged above, Jolly and Quest
6 Holdings, and each of them, directly or indirectly, made use of means or instruments of
7 transportation or communication in interstate commerce or of the mails to offer and to
8 sell securities through the use or medium of a prospectus or otherwise when no
9 registration statement had been filed or was in effect as to such securities and no
10 exemption from registration was available.

11 31. By reason of the foregoing, Jolly and Quest Holdings, and each of them,
12 have violated and, unless enjoined, will continue to violate Sections 5(a) and 5(c) of
13 the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

14 **SECOND CLAIM FOR RELIEF**

15 **(Violations of Section 17(a) of the Securities Act)**

16 32. The Commission hereby incorporates and realleges here paragraphs 1
17 through 28, above.

18 33. By engaging in the acts and conduct alleged above, Jolly and Quest
19 Holdings, and each of them, directly or indirectly, in the offer or sale of securities, by
20 use of the means or instruments of transportation or communication in interstate
21 commerce or by use of the mails: (a) with scienter employed devices, schemes, or
22 artifices to defraud; (b) obtained money or property by means of untrue statements of
23 material fact or by omitting to state a material fact necessary in order to make
24 statements made, in the light of the circumstances under which they were made, not
25 misleading; and (c) engaged in transactions, practices, or courses of business which
26 operated or would operate as a fraud or deceit upon the purchasers.

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

4 **THIRD CLAIM FOR RELIEF**

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

7 35. The Commission hereby incorporates and realleges here paragraphs 1
8 through 28, above.

9 36. Defendants Jolly and Quest Holdings, and each of them, have, by
10 engaging in the conduct set forth above, directly or indirectly, by use of means or
11 instrumentalities of interstate commerce, or of the mails, or of a facility of a national
12 security exchange, with scienter: (a) employed devices, schemes, or artifices to
13 defraud; (b) made untrue statements of material fact or omitted to state material facts
14 necessary in order to make the statements made, in light of the circumstances under
15 which they were made, not misleading; and (c) engaged in acts, practices, or courses of
16 business which operated or would operate as a fraud or deceit upon other persons, in
17 connection with the purchase or sale of securities.

18 37. By reason of the foregoing, defendant has directly or indirectly violated,
19 and unless enjoined will continue to violate, Section 10(b) of the Exchange Act, 15
20 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5.

21 **PRAYER FOR RELIEF**

22 WHEREFORE, the Commission respectfully requests that the Court:

23 I.

24 Enjoin and restrain defendants Jolly and Quest Holdings, from, directly or
25 indirectly, engaging in conduct in violation of Section 10(b) of the Exchange Act, 15
26 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5, and Sections 5(a),
27 5(c) and 17(a) of the Securities Act, 15 U.S.C. §§ 77e(a), 77e(c) and 77q(a).

1 II.

2 Order defendants Jolly and Quest Holdings, and each of them, to provide an
3 accounting of all Quest investor funds Defendants received and how those funds were
4 used.

5 III.

6 Order defendants Jolly and Quest Holdings to disgorge ill-gotten gains in an
7 amount according to proof, plus prejudgment interest thereon.

8 IV.

9 Order defendants Jolly and Quest Holdings, and all of their agents, employees,
10 officers, and all others acting in concert with them, to preserve all assets relating to
11 Quest during the pendency of this litigation, for the benefit of defrauded Quest
12 investors.

13 V.

14 Order defendants Jolly and Quest Holdings, and each of them, to pay civil
15 money penalties pursuant to Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d),
16 and Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d).

17 VI.

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

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VII.

Grant such other and further relief as this Court may deem just, equitable, and necessary.

Dated: February 9, 2009

Respectfully submitted:

By: 
Robert L. Mitchell
Victor Hong

Attorneys for Plaintiff
SECURITIES AND EXCHANGE
COMMISSION