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U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
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EXASCLERK, U.S. DISTRICT COURT
By

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

Ry

SECURITIES AND EXCHANGE COMMISSION, :

Plaintiff,

Civil Action No.:

3-06CV1681-K

BILLY DAVID DEATON,

v.

Defendant.

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission") files suit against Defendant Billy David Deaton and would respectfully show the Court as follows:

SUMMARY

1. This is an accounting and financial fraud case. In 2001, Defendant Billy David Deaton sold his company, Image Entry, Inc., to publicly traded Sourcecorp, Inc., a Dallas-based document and information management company. As part of the sale, Deaton received an annual bonus, or "earn-out" payment, if Image Entry achieved certain earnings targets. During the period of the earn-out, Deaton directed that Image Entry (a) recognize unearned revenue from data entry contracts, and (b) prematurely recognize revenue from data entry contracts it had not yet been awarded. Image Entry also had certain of its expenses paid by other companies Deaton owned, thereby reducing Image Entry's expenses and increasing its earnings. Because these actions inflated Image Entry's earnings, this conduct also materially inflated Sourcecorp's reported earnings. As a result, Deaton obtained approximately \$25 million in cash "earn-out"

payments from Sourcecorp over the three-year earn-out period. He has since repaid these

payments, plus additional costs incurred by the company, pursuant to an agreement with

Sourcecorp.

JURISDICTION AND VENUE

2. This Court has jurisdiction over this action under Section 22(a) of the Securities

Act of 1933 ("Securities Act") [15 U.S.C. §77u(a)] and Section 27 of the Securities Exchange

Act of 1934 ("Exchange Act") [15 U.S.C. §§78u(e) and 78aa]. Defendant has, directly and

indirectly, made use of the means or instrumentalities of interstate commerce and/or the mails in

connection with the transactions described in this Complaint.

3. Venue is proper in this Court under Section 22(a) of the Securities Act [15 U.S.C.

§77u(a)] and Section 27 of the Exchange Act [15 U.S.C. §§78u(e) and 78aa] because certain of

the acts and transactions described herein took place in the Northern District of Texas.

DEFENDANT

4. Billy David Deaton, age 59, is a resident of Ocala, Florida. Deaton and his family

owned Image Entry until 2001, when it was sold to Sourcecorp. Deaton remained Image Entry's

CEO during the earn-out period, and left Image Entry in early-2004 as part of a planned

transition. Deaton owns several other private companies, including Trinity Group, LLC, which

paid certain Image Entry invoices.

FACTS

5. Sourcecorp is a national business outsourcing services provider specializing in

document and information management, and provides specialized knowledge-based processing

and consulting. During the relevant periods, Sourcecorp's common stock was registered with the

Commission pursuant to Section 12(g) of the Exchange Act and traded on the Nasdaq National

Market under the symbol "SRCP."

6. Image Entry is a Kentucky corporation headquartered in London, Kentucky.

Image Entry provides data entry services and is one of Sourcecorp's largest and most profitable

subsidiaries. Sourcecorp acquired Image Entry in 2001.

7. As part of the 2001 agreement to sell Image Entry to Sourcecorp, Deaton agreed

to remain as Image Entry's CEO until February 29, 2004. Under the contract, Deaton received

annual "earn-out" payments if Image Entry reached certain financial targets, subject to a cap.

The earn-out payments were calculated under a formula that essentially paid Deaton multiple

dollars for every dollar Image Entry earned above its target.

8. Image Entry processed data for several state and federal governmental agencies.

Typically, the contracts permitted Image Entry to bill the agency by "keystroke," or each time an

Image Entry operator struck the keyboard. To ensure accuracy, some contracts required Image

Entry to employ a process called "double-key verification," whereby a second operator re-keyed

the original data. When Image Entry double-key verified data, it could bill the agency for the

original keystroke and the second, verifying one.

9. Deaton instructed Image Entry employees to stop double-key verifying certain

contracts. Even though it did not double-key verify, however, Image Entry continued to bill the

agencies – and recognize revenue – as though it had. For one particular contract, Deaton also

instructed employees to insert a surcharge into the billing program. The surcharge adjusted for

software inconsistencies in counting keystrokes, but it was improperly applied to all keystrokes,

not just those that were under-counted. Basically, this surcharge increased the number of

keystrokes billed by between 15% and 30%. The billing program randomly varied the exact

surcharge, making it extremely difficult to detect.

10. Recognizing revenue for work not done violates generally accepted accounting

principles. To be recognized, revenue must be earned. Revenue is earned when the entity has

substantially accomplished what it must do to be entitled to the benefits represented by the

revenues.

11. As a result of the conduct described above, Deaton caused Image Entry (and, by

extension, Sourcecorp) to recognize revenue that it had not earned.

12. Deaton also caused his staff to perform work on a data entry contract that Image

Entry had not yet been awarded. This work primarily added new data fields to work Image Entry

already had done for an existing customer. Months before Image Entry was finally awarded the

new contract, Deaton caused his staff to begin keying data into the anticipated fields. Image

Entry recorded this work as work-in-process ("WIP") revenue.

13. Deaton, however, incorrectly anticipated which data fields would get added, thus

rendering most of the work worthless and the WIP recorded from it un-billable. After the

contract was finally executed, Image Entry operators were forced to re-key most of this data.

14. To be recognizable under generally accepted accounting principles, revenue must

be "realized" and "earned." Revenue is realized when services are exchanged for cash or claims

for cash. Revenue is earned when the entity has substantially accomplished what it must do to be

entitled to the benefits represented by the revenues.

15. Image Entry neither realized nor earned the revenue on the anticipated work

during the periods it was initially recorded. It had not realized the revenue because it could not

exchange the work it did for cash or claims for cash, since it had no contract for that work.

Indeed, Image Entry could not bill for this work and ultimately had to discard most of it as

useless because the contract called for different data fields.

16. Image Entry also did not earn these revenues during the periods they were

initially recorded. Because there was no contract when this work was done, and since the final

contract mandated different data fields, Image Entry had not substantially accomplished the work

necessary to get paid for the work. This work therefore should not have been recorded as

revenue.

17. Deaton also increased his earn-out by causing other companies he controlled

(usually Trinity Group LLC ("Trinity")) to pay certain expenses that were owed by Image Entry.

Deaton knew that Image Entry selected invoices for expenses it incurred – typically for office

supplies – and re-routed them to Trinity for payment. Image Entry did not record these expenses

in its financial statements.

18. One of Sourcecorp's internal controls required Deaton to certify on a quarterly

and annual basis that Image Entry's financial statements for those periods were accurate.

Specifically, each quarter and year from January 1, 2002 through June 30, 2004, Deaton

represented that, among other things:

he was "responsible for the fair presentation in the financial statements of financial position, results of operations and cash flows in conformity with generally accepted

accounting principles";

there was "no violation or possible violation of laws or regulations"; and

Image Entry's "accounting records support the financial statements, and all accounts

[were] properly reconciled."

19. These representations were false and misleading. Sourcecorp's accounting

department relied on Deaton's certifications in preparing Sourcecorp's financial statements and

public filings.

20. As a result of the foregoing, Sourcecorp's 2001 net loss was understated by \$2.5

million, or 13.8%; its 2002 net income was overstated by \$7.5 million, or 27%; and its 2003 net

income was overstated by \$7.9 million, or 28.8%.

21. Sourcecorp included these misstatements in its 2001, 2002 and 2003 Form 10-Ks,

and in its Form 10-Qs for each quarter from the second quarter of 2001 through the second

quarter of 2004. Sourcecorp also included these misstatements and omissions in public earnings

releases covering the relevant periods, which were filed with the Commission on Form 8-K.

Finally, Sourcecorp filed a Form S-8 registration statement with the Commission on November

27, 2002. This filing expressly incorporated by reference the materially false and misleading

2001 Form 10-K and the Form 10-Qs and Form 8-Ks filed to that point in 2002.

FIRST CLAIM
Violations of Securities Act Section 17(a)

22. Paragraphs 1 through 21 are realleged and incorporated by reference.

23. Defendant, in the offer or sale of securities, has (a) employed devices, schemes or

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

operate as a fraud or deceit upon purchasers, prospective purchasers, and other persons.

24. Defendant engaged in the conduct described in this claim knowingly or with

severe recklessness. In addition, Defendant was negligent as he engaged in the conduct

described in this claim.

25. By reason of the foregoing, Defendant violated, and unless enjoined will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. § 77q].

SECOND CLAIM Violations of Exchange Act Section 10(b) and Rule 10b-5

- 26. Paragraphs 1 through 21 are realleged and incorporated by reference.
- 27. Defendant, in connection with the purchase or sale of securities, has: (a) employed devices, schemes or 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 operate as a fraud or deceit upon purchasers, prospective purchasers, and other persons.
- 28. Defendant engaged in the conduct described in this claim knowingly or with severe recklessness.
- 29. By reason of the foregoing, Defendant 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.

THIRD CLAIM Violations of Exchange Act Section 13(b)(5) and Rule 13b2-1

- 30. Paragraphs 1 through 21 are realleged and incorporated by reference.
- 31. Defendant violated Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] by knowingly circumventing or overriding or knowingly failing to implement a system of internal accounting controls at Sourcecorp and knowingly falsifying Image Entry's books and records.

32. Additionally, Defendant violated Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1] by, directly or indirectly, falsifying or causing to be falsified, the books, records or accounts of Sourcecorp subject to Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

33. By reason of the foregoing, Defendant violated, and unless enjoined will continue to violate, Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] and Rule 13b2-1 [17 C.F.R. § 240.13b2-1] thereunder.

FOURTH CLAIM Aiding and Abetting Sourcecorp's Violations of Exchange Act Section 13(a) and Rules 12b-20, 13a-1, 13a-11 and 13a-13

- 34. Paragraphs 1 through 21 are realleged and incorporated by reference.
- 35. Based on the conduct alleged herein, Sourcecorp violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11 and 13a-13 thereunder.
- 36. Defendant, in the manner set forth above, knowingly or with recklessness provided substantial assistance to Sourcecorp's violations of these provisions, as an issuer of a security registered pursuant to Section 12 of the Exchange Act, in its failing to file with the Commission, in accordance with rules and regulations the Commission has prescribed, information and documents required by the Commission to keep reasonably current the information and documents required to be included in or filed with an application or registration statement filed pursuant to Section 12 of the Exchange Act and annual reports and quarterly reports as the Commission has prescribed.
- 37. By reason of the foregoing, Defendant aided and abetted Sourcecorp's violations of, and unless restrained and enjoined will continue to aid and abet, violations of Section 13(a) of

the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, 13a-11 and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11 and 240.13a-13] thereunder.

FIFTH CLAIM

Aiding and Abetting Sourcecorp's Violations of Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B)

38. Paragraphs 1 through 21 are realleged and incorporated by reference.

39. Based on the conduct alleged herein, Sourcecorp violated Section 13(b)(2)(A) and

13(b)(2)(B) of the Exchange Act.

40. Defendant, in the manner set forth above, knowingly or with recklessness

provided substantial assistance to Sourcecorp in connection with its failure to make and keep

books, records, and accounts, which, in reasonable detail, accurately and fairly reflected

Sourcecorp transactions and dispositions of its assets.

41. Defendant, in the manner set forth above, knowingly or with recklessness

provided substantial assistance to Sourcecorp in connection with its failure to devise and

maintain a system of internal accounting controls sufficient to provide reasonable assurances that

transactions are recorded as necessary to permit preparation of financial statements in conformity

with generally accepted accounting principles.

42. By reason of the foregoing, Defendant aided and abetted Sourcecorp's violation

of, and unless restrained and enjoined will continue to aid and abet violations of, Exchange Act

Sections 13(b)(2)(A) and 13(b)(2)(B) [15 U.S.C. §§ 78m(b)(2)(A) and (b)(2)(B)].

REQUEST FOR RELIEF

The Commission respectfully requests that the Court enter a judgment:

(a) permanently enjoining Deaton from violating Section 17(a) of the Securities Act

and Sections 10(b) and 13(b)(5) of the Exchange Act, and Rules 10b-5 and 13b2-1 thereunder,

and aiding and abetting violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules12b-20, 13a-1, 13a-11, and 13a-13 thereunder;

(b) ordering Deaton to pay a civil penalty under 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)];

(c) prohibiting Deaton under Section 20(e) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(2) of the Exchange Act [15 U.S.C. § 781], from acting as an officer or director of any issuer that has a class of securities registered under Section 12 of the Exchange Act [15 U.S.C. § 781] or that is required to file reports under Section 15(d) of the Exchange Act [15 U.S.C. § 780(d)]; and

(d) granting such other relief as this Court may deem just or appropriate.

Dated: September 14, 2006

Respectfully submitted,

Harold R. Loftin, Jr.

Texas Bar No. 12487090 Attorney for Plaintiff

SECURITIES and EXCHANGE COMMISSION

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JS 44(Kev. 3/44) The JS-44 civil cover state and tyle (10) fration contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON THE REVERSE OF THE FORM.) I.(a) PLAINTIFF **DEFENDANTS** NORTHERN DISTRICT OF TEXAS SECURITIES AND EXCHANGE **BILLY DAVID DEATON** COMMISSION County of Residence of First Listed Defendant: Unknown (b) COUNTY OF RESIDENCE OF FIRST LISTED PLAINTIFF. (IN U.S. PLAINTIFF CASES ONLY) (EXCEPT IN U.S. PLAINTIFF CASES) NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED. ATTORNEYS (IF KNOWN) (C) ATTORNEY (FIRM NAME, ADDRESS, AND TELEPHONE NUMBER) Harold R. Loftin, Jr., Esq. **Securities & Exchange Commission** 3-06CV1681-K Burnett Plaza, Suite 1900 801 Cherry Street, Unit #18 Fort Worth, TX 76102-6882 (817) 978-6450 (PLACE AN "X" PLAINTIFF AND DEFENDANT) IN ONE II. BASIS OF JURISDICTION (PLACE AN "X" IN ONE BOX ONLY) III. CITIZENSHIP OF PRINCIPAL PARTIES (For Diversity Cases Only) PTF PTF PTF PTF □ 1 U.S. Government 3 Federal Question Citizen of This State Incorporated or Principal Place **4 4** Plaintiff (U.S. Government Not a Party) of Business In This State Citizen of Another State □ 2 □ 2 2 U.S. Government 4 Diversity Incorporated and Principal Place 5 5 (Indicate Citizenship of Parties Citizen or Subject of a □ 3 □ 3 of Business in Another State Defendant in Item III) **Foreign Country** Foreign Nation IV. NATURE OF SUIT (PLACE AN "X" IN ONE BOX ONLY) FORFEITURE/PENALTY **BANKRUPTCY** OTHER STATUTES CONTRACT ☐ 400 State Reapprotionment ☐ 410 Antitrust PERSONAL INJURY ☐ 110 Insurance PERSONAL INJURY ☐ 610 Agriculture ☐ 120 Marine
☐ 130 Miller Act
☐ 140 Negotiab ☐ 422 Appeal 28 USC 156 ☐ 310 Airplane ☐ 362 Personal Injury G20 Other Food & Drug ☐ 315 Airplane Product Med Malpractice ☐ 625 Drug Related Seizure of 430 Banks and Banking ■ 365 Personal Injury -Property 21 USC 881 423 Withdrawal 450 Commerce/ICC 140 Negotiable Instrument Liability Product Liability ☐ 630 Liquor Laws 28 USC 157 150 Recovery of Overpayment ☐ 320 Assault, Libel & Rates/etc & Enforcement of Judgment ■ 460 Deportation Slander ☐ 330 Federal ☐ 368 Asbestos Personal ☐ 640 R.R. & Truck ■ 470 Racketeer Influenced ☐ 151 Medicare Act PROPERTY RIGHTS Employers' Liability Injury Product Liability and Corrupt Organizations ☐ 152 Recovery of Defaulted □ 340 Marine PERSONAL PROPERTY ☐ 650 Airline Regs ■ 820 Copy rights ■ 810 Selective Service ☐ 345 Marine Product Student Loans (Excl Veterans) □ 370 Other Fraud 660 Occupational Safety/Health ■ 830 Patient ■ 850 Securities ☐ 371 Truth in Lending ☐ 690 Other Liability 840 Trademark Commodities/ Exchange ■ 153 Recovery OF Overpayment ☐ 350 Motor Vehicle ☐ 380 Other Personal ☐ 875 Customer Challenge **LABOR** SOCIAL SECURITY of Veteran's Benefits Property Damage 12 USC 3410 ☐ 160 Stockholders' Suits ☐ 355 Motor Vehicle ☐ 385 Property Damage ☐ 710 Fair Labor Standards Act ☐ 861 HIA (1395FF) ☐ 891 Agricultural Acts 190 Other Contract **Product Liability** Product Liability ■ 862 Black Lung (923) ■ 892 Economic Stabilization ☐ 195 Contract Product Liability ☐ 360 Other Personal ☐ 720 Labor/Mgmt. Relations ■ 863 DIWC/DIWW (405(g)) Act Injury **REAL PROPERTY** PRISONER PETITIONS ☐ 730 Labor/Mgmt Reporting & T 864 SSID Title XVI ☐ 893 Environmental Matters **CIVIL RIGHTS** ■ 865 RSI (405(g)) Disclosure Act ■ 894 Energy Allocation Act ☐ 210 Land Condemnation ☐ 441 Voting ☐ 510 Motions to Vacate ☐ 740 Railway Labor Act 895 Freedom of **FEDERAL TAX SUITS** Sentence Information Act ☐ 220 Foreclosure ☐ 442 Employment Habeas Corpus: ☐ 790 Other Labor Litigation ■ 870 Taxes (U.S. Plaintiff or ☐ 900 Appeal of Fee ☐ 230 Rent Lease & Ejectment☐ 240 Torts to Land 443 Housing/ ☐ 530 General Determination Under Defendant) ☐ 535 Death Penalty
☐ 540 Mandamus & Other ☐ 791 Empl Ret Inc □ 871 IRS - Third Party Accommodations Equal Access to Justice ☐ 245 Tort Product Liability ☐ 444 Welfare 26 USC 7609 □ 950 Constitutionality of Security Act 440 Other Civil 290 All Other Real Property ☐ 550 Civil Rights State Statutes ■ 890 Other Statutory Actions V. ORIGIN (PLACE AN "X" IN ONE BOX ONLY) ☑ 1 Original □ 2 Removed from ☐ 3 Remanded from ☐ 4 Reinstated or ☐ 5 Transferred from ☐ 6 Multidistrict ☐ 7 Appeal to District Proceeding State Court Appellate Court Judge from Magistrate Reopened another district (Specify) Judge CAUSE OF ACTION (CITE THE U.S. CIVIL STATUTE UNDER WHICH YOU ARE FILING AND WRITE BRIEF STATEMENT OF CAUSE. DO NOT CITE JURISDICTIONAL STATUTES UNLESS DIVERSITY.) Section 17(a) of the Securities Act of 1933 ("Securities Act") [15. U.S.C. §77q(a)] and Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) and 13(b)(5) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§78j(b), 78m(a), 78m(b)(2)(A), 78m(b)(2)(B), and 78m(b)(5)] and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13 and 13b2-1 [17 C.F.R. §240.10b-5, 240.12b-20, 240.13a-1, 240.13a-11, 240.13a-13 and 240.13b2-1] VII. REQUESTED IN CHECK IF THIS IS A CLASS ACTION **DEMAND \$** CHECK YES only if demanded in complaint: COMPLAINT: □ UNDER F.R.C.P. 23 JURY DEMAND | YES

COMPLAINT: UNDER F.R.C.P. 23

VIII. RELATED CASE(S) (See Instructions):

IF ANY

JUDGE

DATE

9/14/06

FOR OFFICE USE ONLY

Receipt #____AMOUNT____APPLYING IFP___JUDGE_____MAG. JUDGE______