

UNITED STATES DISTRICT COURT  
for the  
DISTRICT OF COLUMBIA

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**SECURITIES AND EXCHANGE COMMISSION,**  
450 Fifth Street, N.W.  
Washington, D.C. 20549,

Plaintiff,

v.

**TEXAS AMERICAN GROUP, INC.,**

**ALAN E. HUMPHREY,**

**RICHARD E. LEE, and**

**WILLIAM GROSVENOR,**

Defendants.

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CIVIL ACTION NO.

CASE NUMBER 1:00CV01955

JUDGE: Royce C. Lamberth

DECK TYPE: Civil General

DATE STAMP: 08/11/2000

**COMPLAINT**

Plaintiff Securities and Exchange Commission ("Commission") alleges:

**SUMMARY**

1. This action involves a fraudulent scheme to promote the stock of Texas American Group, Inc. ("TAG"), a Texas corporation headquartered in Verdi, Nevada, and to evade the registration requirements of the federal securities laws. TAG perpetrated the fraud through Alan E. Humphrey ("Humphrey"), its president; William Grosvenor ("Grosvenor"), its Chief Executive Officer; and Richard E. Lee ("Lee"), a TAG director.

2. From August 1995 through September 1996, the defendants made materially false and misleading statements about TAG in Commission filings, at investor seminars, and in promotional materials and advertisements. Among other things, TAG claimed that it

owned the Amarilla Golf and Country Club ("Amarilla"), purportedly a \$148 million resort in the Canary Islands. TAG never owned Amarilla. TAG also falsely claimed in national advertisements recommending the stock that it had \$300 million in assets.

3. Between approximately October 1995 and March 1996, TAG issued over 170 million unregistered shares of its common stock to various offshore persons and entities, purportedly to purchase real estate and other assets. Significantly, TAG never-acquired ownership of those assets, and many of the transactions were shams. Most of the stock flowed back into the United States within a short period of time. Thus, TAG did not issue the shares pursuant to Regulation S and instead was engaged in a scheme to evade the registration requirements of the federal securities laws.

4. By engaging in this conduct, the defendants have violated, among other things, the antifraud, registration and reporting provisions of the federal securities laws, and are likely to commit such violations in the future unless the Court enjoins them from doing so. The Commission thus seeks a judgment permanently enjoining the defendants from further securities law violations and, with respect to Humphrey, Lee and Grosvenor, civil monetary penalties.

#### **JURISDICTION**

5. This Court has jurisdiction of this action pursuant to Section 22(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §77v(a)] and Sections 21(d), 21(e) and 27 of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §78u(d), 78u(e), and 78aa].

6. The defendants, directly or indirectly, made use of the means, instruments or instrumentalities of transportation or communication in interstate commerce, or of the mails, in connection with the acts, practices, and courses of business alleged herein.

7. The Commission brings this action pursuant to authority conferred on it by Section 20(b) of the Securities Act [15 U.S.C. §77t(b)] and Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. §78u(d) and 78u(e)].

#### **DEFENDANTS**

8. Defendant Texas American Group, Inc., during the time of the violations alleged herein, was a Texas corporation headquartered in Verdi, Nevada. TAG's stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act. During all relevant times, TAG's shares traded in the over the counter market and were listed in the pink sheets.

9. Defendant Alan E. Humphrey, a resident of Cheyenne, Wyoming, is the President and a director of TAG.

10. Defendant Richard E. Lee, a resident of Coarsegold, California, is a director of TAG.

11. Defendant William Grosvenor, a resident of London, England, is the Chief Executive Officer of TAG.

#### **FRAUDULENT SCHEME TO PROMOTE TAG'S STOCK**

##### **TAG Claimed Falsely to Own Certain Assets in Commission Filings**

##### **Background**

12. TAG made a number of materially false and misleading statements and omissions in filings with the Commission during 1995 and 1996. The most glaring misstatements concern TAG's false claims of ownership of Amarilla, which is discussed in two Forms 10-K and in a quarterly report filed during this period.

13. TAG also filed a Form 8-K on January 11, 1996 (the "1996 Form 8-K") in which it made fraudulent claims regarding other assets that it purportedly acquired in October through December 1995. (No one signed the 1996 Form 8-K filed with the Commission.) The 1996 Form 8-K contains materially false and misleading statements and omissions regarding the assets.

14. TAG has not filed Forms 10-K for 1996, 1997, 1998 and 1999, nor has it filed any Form 10-Qs for any quarter since the third quarter of 1995.

Amarilla

15. TAG falsely claimed that it owned Amarilla, a vacation resort in Tenerife, Canary Islands, Spain, in three filings with the Commission during 1995 and 1996: (i) a Form 10-K for the period ended December 31, 1994, which was filed on August 14, 1995 (the "1994 10-K"); (ii) a Form 10-Q for the period ended September 30, 1995, which was filed on January 11, 1996 (the "Q3 1995 10-Q"); and (iii) a Form 10-K for the period ended December 31, 1995, which was filed on September 6, 1996 without audited financial statements (the "1995 10-K").

16. In the 1994 10-K, the Q3 1995 10-Q and the 1995 10-K, TAG falsely announced, without qualification, that on May 20, 1995, it acquired Amarilla. TAG never owned Amarilla.

17. The unaudited financial statements included in the Q3 1995 10-Q showed that TAG had \$148,757,408 in assets, the entirety of which derived from the value that TAG placed on Amarilla. TAG also claimed in the Q3 1995 10-Q that it expected Amarilla to generate significant revenues.

18. Humphrey signed the 1994 10-K and the Q3 1995 10-Q. Lee prepared and signed the Q3 1995 10-Q. Lee prepared the Q3 1995 10-Q knowing there was no factual basis for the statements contained therein. Lee also prepared and signed the 1995 10-K.

*Lotto On-Line and Casino On-Line*

19. TAG reported in its 1996 Form 8-K that on December 1, 1995, it acquired gaming software called Lotto On-Line and Casino On-Line, purportedly internet lottery and casino games designed for multilingual access by users around the world. TAG issued 20 million shares of its stock to Betzy International, an offshore entity, purportedly to acquire the internet lottery and casino games, as well as "the rights to all future computer-based products developed by the company."

20. TAG's statements regarding Lotto On-Line and Casino On-Line were materially false and misleading. In reality, Lotto On-Line and Casino On-Line were nothing more than a single computer disk that contained an incomplete program developed by a friend of Humphrey's on Humphrey's home computer. At the time that TAG filed the 1996 Form 8-K, Humphrey had not even evaluated the software to see whether it worked. In fact, the product only existed on Humphrey's home computer and was not available to anyone.

*Sterling Hotels International*

21. TAG reported in the 1996 Form 8-K that it had acquired Sterling Hotels International Corporation ("Sterling"), which TAG described as "a Nevada based hotel development and management company that has worked for the last five years to develop a chain of mid-range limited service business hotels in East Germany and the Eastern Bloc countries." Sterling, however, was incorporated in November 1995, just two months before

TAG announced that Sterling had "worked for the last five years" to develop a chain of hotels.

22. On January 14, 1996, just three days after filing the Form 8-K which announced the Sterling acquisition, TAG held a board meeting and authorized Humphrey to cancel the 5 million shares of common stock and the 300,000 shares of preferred convertible stock issued to the Sterling vendor because of doubts about the assets involved in the transaction. On January 25, 1996, TAG canceled the Sterling deal. TAG said nothing about the cancellation for nine months, however, when it finally noted the event in its 1995 Form 10-K.

*Diagnostic Technologies Corporation*

23. The 1996 Form 8-K states that TAG acquired Diagnostic Technologies Corporation ("DTC"), a London pathology testing service, on October 24, 1995. However, TAG never acquired DTC. TAG said nothing about the fact that it actually had not acquired DTC until it filed its 1995 10-K in September 1996, approximately eleven months after the initial announcement.

**Humphrey Provided False Information to TAG's Auditor**

24. In August 1995, a Dallas accounting firm prepared TAG's audited financial statements for the year ended December 31, 1994. TAG included the audited financial statements in its 1994 Form 10-K.

25. In connection with the audit of TAG's 1994 financial statements, Humphrey told the auditors that TAG had purchased Amarilla, even though he knew that was not the case.

26. While discussing a work plan for TAG's 1995 audit, Humphrey again told the auditors that TAG owned Amarilla, as well as other foreign real estate. When Humphrey

failed to provide to the auditors certain information about these assets that had been requested by the auditors, the auditors terminated their relationship with TAG. Consequently, the 1995 Form 10-K that TAG ultimately filed with the Commission did not contain audited financial statements. TAG never filed a Form 8-K to report the termination of its relationship with its auditors.

#### **Promotional Materials**

27. TAG prepared a promotional document entitled "informational Memorandum" ("InfoMemo") in January 1996. TAG distributed the InfoMemo by mail and at investor seminars.

28. The InfoMemo contained the same materially false and misleading statements regarding Amarilla, Lotto On-Line, Casino On-Line and DTC that were included in TAG's Commission filings. In addition, the InfoMemo stated that Amarilla had an appraised value of \$144 million and described two additional assets, among others, that TAG did not own: the Highlands Hotel GmbH and the Hotel Viking.

29. The InfoMemo also contained false statements projecting that the Alpha Club, another purported TAG asset, would earn \$5 million in 1996. In addition, TAG never applied for a NASDAQ listing, despite the InfoMemo's claim to the contrary.

30. Humphrey was responsible for having the InfoMemo copied and then distributed both to securities firms and to investors at several investor seminars.

### **Investor Seminars**

31. Promoters of TAG spoke at several investor seminars from February through July 1996. Grosvenor made materially false and misleading presentations to investors in at least seven of those seminars. At one such seminar in Houston, Texas in July 1996, Grosvenor falsely told investors that TAG had \$200 million in assets. Copies of the fraudulent InfoMemo were distributed at this meeting.

### **In-flight Magazine Advertisements**

32. The July 1996 editions of the in-flight magazines for the major U.S. airlines contained a full-color, one-page advertisement featuring TAG. The advertisement stated that TAG's stock is undervalued and a good buy because TAG recently became "the second largest retailer in the U.K." The advertisement also stated that TAG "procure[d] \$300 million in assets [and] acquired close to 2 billion in revenue with \$25 million in profits."

33. Virtually nothing in the advertisement is true. The asset, revenue and profit figures that appear in the advertisement are based on the assumption that TAG had completed the purchase of a London retail chain called Facia, Ltd. TAG, however, never consummated the Facia transaction. In fact, by the time the advertisement appeared, TAG had announced it no longer wished to pursue Facia, and Facia had been sold to its creditors. The advertisement also included pictures of the Hotel Viking and a golf course, neither of which TAG owned.

34. Humphrey, on behalf of TAG, signed the contract with the entity that arranged for the publication of the advertisement. Grosvenor supplied the information to be included in the advertisement.



**FRAUDULENT SCHEME TO EVADE THE REGISTRATION REQUIREMENTS  
OF THE FEDERAL SECURITIES LAWS**

35. Between October 1995 and March 1996, TAG issued over 170 million unregistered shares of its common stock to various offshore entities, purportedly in exchange for certain real estate and other assets.

36. The issuance of this stock by TAG did not qualify for the Regulation S safe harbor from registration because TAG's actions constituted a scheme to temporarily place the securities offshore in order to evade the registration requirements of the federal securities laws, as evidenced by the fact that: (i) many, if not all, of the transactions for which TAG issued stock were shams; (ii) in many cases the stock was issued to entities that appear to be controlled by individuals associated with TAG; and (iii) the stock flowed back into the U.S. almost immediately after the expiration of the 40-day waiting period under Regulation S.

**TAG Issued Unregistered Stock in Sham Transactions**

37. Many of the transactions in which TAG issued unregistered stock to offshore entities were not *bona fide*. For example, TAG issued 20 million shares to Betzy International to acquire Lotto On-Line and Casino On-Line. The gaming software, however, was developed on Humphrey's home computer by Humphrey's friend and is incomplete.

38. In another transaction, TAG issued 125 million shares to an offshore company to acquire the entity that controlled the lease to the Hotel Viking in Portugal. The terms of the agreement obligated TAG to raise \$2 million in 30 days. When TAG failed to do so, the vendor canceled the agreement, but retained 43 million TAG shares. TAG received nothing in exchange for those 43 million shares.

39. TAG issued 5 million shares to a Swiss entity known as Mollard Nominees, S.A. in exchange for DTC. TAG, however, never acquired DTC. The shares issued to Mollard were never returned.

#### **TAG Issued Unregistered Stock to its Close Associates**

40. Certain of the purported Regulation S transactions that TAG conducted were nothing more than ruses to get TAG stock into the hands of close associates of the company. In transactions involving the Alpha Club and the Hotel Viking, for example, TAG issued stock to offshore entities closely associated with John Carway ("Carway"). Carway, a resident of Ireland, was involved in many aspects of TAG's operations.

41. In the Alpha Club transaction, TAG entered into a Stock Purchase Agreement with Millennium Corporation ("Millennium"), an Isle of Niue company, as the vendor. Pursuant to the agreement, TAG was to issue 37 million shares of stock to acquire the Alpha Club. Humphrey and Lee did not know what Millennium is or who owns the company. Moreover, none of the 37 million shares were issued to Millennium, the purported vendor. Instead, the bulk of the shares that TAG issued for the Alpha Club went to employees and associates of John Carway and an offshore company for which those employees and associates worked. Some of the shares also went to a TAG director who resides in Portugal.

42. In the Hotel Viking transaction, TAG issued 125 million shares to another Isle of Niue company, Capital Investment Corporation ("CIC"), to acquire Predial Garve, S.A., the leaseholder for the Hotel Viking. Humphrey did not know what CIC is or who owns CIC even though TAG reported in the 1996 Form 8-K that CIC was the largest TAG shareholder. Similarly, neither Grosvenor nor Lee can identify CIC.

**Millions of the Purported Regulation S Shares Returned to the U.S. Market  
Immediately After the Expiration of the 40-Day Restricted Period**

43. Millions of shares of stock that TAG purportedly issued in compliance with Regulation S and in exchange for certain assets returned to the United States immediately after the expiration of the 40-day restricted period. The immediate return of the shares indicates both that TAG did not intend that the shares actually come to rest abroad, and that the economic risk of ownership never actually left the United States. As a result, TAG's issuance of the shares did not occur in the context of an actual offshore transaction, as required by Regulation S.

**FIRST CLAIM**

**Violations of Section 17(a) of the Securities Act  
[against TAG, Humphrey and Grosvenor]**

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

45. By reason of the foregoing, TAG, Humphrey and Grosvenor violated Section 17(a) of the Securities Act [15 U.S.C. §77q(a)].

**SECOND CLAIM**

**Violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder  
[against all Defendants]**

46. Paragraphs 1 through 45 are realleged and incorporated herein by reference.

47. By reason of the foregoing, TAG, Humphrey, Lee and Grosvenor violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder [15 U.S. C. §78j(b) and 17 C.F.R. §240.10b-5].

### **THIRD CLAIM**

#### **Violations of Section 5 of the Securities Act [against TAG, Humphrey and Lee]**

48. Paragraphs 1 through 47 are realleged and incorporated herein by reference.

49. Between approximately October 1995 and March 1996, TAG, through Humphrey and Lee, issued millions of unregistered TAG securities to offshore entities. These securities were not exempt from registration under Section 5 of the Securities Act.

50. By reason of the foregoing, TAG, Humphrey and Lee violated Sections 5(a) and (c) of the Securities Act [15 U.S.C. §77e].

### **FOURTH CLAIM**

#### **Violations of Section 13(a) of the Exchange Act and Rules 12b-20, 12b-25 13a-1, 13a-11 and 13a-13 [against TAG]**

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

52. In 1995 and 1996, TAG filed with the Commission Forms 10-K, 10-Q and 8-K that contained materially false and misleading statements about TAG's assets and financial condition. TAG also failed to file audited financial statements with its 1995 Form 10-K and failed to file any Forms 10-K or 10-Q for 1996 through the present. TAG also failed to file any Notifications of Late Filing with respect to any of these missing reports. In addition, TAG never filed a Form 8-K regarding the termination of its relationship with its auditors.

53. By reason of the foregoing, TAG violated Section 13(a) of the Exchange Act [15 U.S.C. §78m(a)] and Rules 12b-20, 12b-25, 13a-1, 13a-11 and 13a-13 thereunder [17 C.F.R. §240.12b-20, 240.12b-25, 240.13a-1, 240.13a-11 and 240.13a-13].

## **FIFTH CLAIM**

### **Violations of Rule 13b2-2 of the Exchange Act [against Humphrey]**

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

55. Humphrey, while an officer and director of TAG, made materially false and misleading statements to an accountant in connection with the audit of TAG's financial statements for the periods ended December 31, 1994 and December 31, 1995.

56. By reason of the foregoing, Humphrey violated Rule 13b2-2 of the Exchange Act [17 C.F.R. §240.13b2-2].

### **PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that this Court:

#### **I.**

Permanently enjoin TAG from violating Sections 5(a), 5(c) and 17(a) of the Securities Act and Sections 10(b) and 13(a) of the Exchange Act and Rules 10b-5, 12b-20, 12b-25, 13a-1, 13a-11 and 13a-13 thereunder.

#### **II.**

Permanently enjoin Humphrey from violating Sections 5(a), 5(c) and 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rules 10b-5 and 13b2-2 thereunder.

#### **III.**

Permanently enjoin Lee from violating Sections 5(a) and 5(c) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

IV.

Permanently enjoin Grosvenor from violating Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

V.

Permanently enjoin Humphrey from serving as an officer or director of any issuer having a class of securities registered with the Commission pursuant to Section 12 of the Exchange Act [15 U.S.C. §781], any issuer required to file reports with the Commission pursuant to Section 15(d) of the Exchange Act [15 U.S.C. §780(d)], or any issuer which has issued any security traded on any national securities exchange or through any inter-dealer quotation medium.

VI.

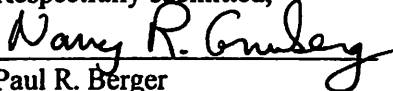
Order Humphrey, Lee and Grosvenor to pay civil monetary penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. §77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d)(3)].

VII.

Grant such other relief as this Court may deem just and proper.

Dated:

Respectfully submitted,



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