

COPY

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF GEORGIA

MAR - 9 1981

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

GLOBAL TELELINK SERVICES, INC.,  
GLOBAL CONTACT CORPORATION, and  
ROBERT SMITH III,

Defendants.

CIVIL ACTION NO.

1 01-CV-0632

COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF

It appears to Plaintiff, Securities and Exchange Commission ("Commission"), and it alleges that:

OVERVIEW

1. The plaintiff brings this action to enjoin violations of the federal securities laws by Global Telelink Services, Inc. ("GTS"), Global Contact Corporation ("Global Contact") and Robert Smith III ("Smith").

This case involves an ongoing Ponzi scheme which, to date, has raised at least \$10 million from over 300 mostly elderly investors nationwide. A Ponzi scheme is a scheme which produces no real profits from the investment, but instead pays returns to

investors which are derived from moneys invested by later investors.

GTS purported to be creating a long distance telephone service. From January 2000 through at least January 2001, GTS offered to investors the opportunity to purchase a telephone switch and related software which was described as a gateway. Prospective customers purportedly would be able to dial a specified number and access the GTS network through the switch. The gateways were sold to investors for \$27,000 or \$54,000 per unit, with the more expensive gateway purportedly able to handle more traffic. The investor was offered a leaseback contract which paid monthly interest at 14 or 15 percent per year. The investor also was to receive one half or one percent of the gross revenues from the switch, depending upon which switch was purchased. Although GTS sold at least 219 switches to investors, only about 50 were actually installed. The system has never produced revenues. GTS was able to make lease payments to investors by using funds invested by subsequent investors in the GTS program and the Global Contact program described below.

In September 2000, Global Contact began another sale and leaseback scheme involving stations in proposed call centers, which purportedly would contract to respond to telephone

inquiries on behalf of customers. Each "station" sells for \$9,750 and essentially consists of a workstation and telephone in a call center. The program was initially structured similarly to the GTS program. However, during the course of the scheme the program was restructured so that a sales agent purchases the station and leases it back to Global Contact. The investor receives a "secured" note from the sales agent which pays 16 percent per year. The note is purportedly secured by the station. At least 120 of the stations have been sold. Global Contact has one prototype call center with 44 stations, however the center has not produced any revenue. The center was established using funds from GTS gateway investors, without disclosure to those investors. Lease payments have been made using funds from subsequent investors.

The selling materials disseminated to investors failed to disclose that both programs were functioning as Ponzi schemes. GTS and Global Contact, in connection with its initial program, represented to investors that they would make regular deposits into a "sinking fund" which would be used to repay the investors principal at the end of the lease. GTS has looted the sinking fund to pay current expenses. The investments are securities. No

registration statement has been filed with the Commission in connection with the sales.

2. Defendants GTS, Global Contact and Smith, by virtue of their conduct, directly and indirectly, have engaged, and unless enjoined will engage, in transactions, acts, practices and courses of business that have constituted and will constitute violations of Sections 5(a), 5(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 [17 C.F.R. 240.10b-5] promulgated thereunder.

#### JURISDICTION AND VENUE

3. The Commission brings this action pursuant to Sections 20(b) and 20(d) of the Securities Act [15 U.S.C. 77t(b) and 77t(d)], and Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. 78u(d) and 78u(e)], to enjoin the defendants from engaging in the transactions, acts, practices and courses of business alleged in this complaint, and transactions, acts, practices and courses of business of similar purport and object, for appointment of a receiver, for disgorgement of illegally obtained funds and other equitable relief, and for civil money penalties.

4. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d) and 22(a) of the Securities Act [15 U.S.C. 77t(b), 77t(d) 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].

5. The defendants, directly and indirectly, made use of the mails, the means and instruments of transportation and communication in interstate commerce, and the means and instrumentality's of interstate commerce in connection with the transactions, acts, practices and courses of business alleged in this complaint.

6. Certain of the transactions, acts, practices and courses of business constituting violations of the Securities Act and the Exchange Act have occurred in the Northern District of Georgia. Defendant Smith resides and defendants GTS and Global Contact have offices in the Northern District of Georgia. Investors have been solicited in the Northern District of Georgia

7. The defendants, unless restrained and enjoined by this Court, will continue to engage in the transactions, acts, practices and courses of business alleged in this complaint, and in transactions, acts, practices and courses of business of similar purport and object.

DEFENDANTS

9. Global Telelink Services, Inc. is a Georgia corporation formed in October 1998. GTS's offices are located in Atlanta, Georgia.

10. Global Contact Corporation is a Georgia Corporation formed in April 2000. Global Contact's offices are located in Atlanta, Georgia.

A. 11. Robert Smith III is the president of GTS and Global Contact and controls the activities of both companies.

THE PONZI SCHEME

GTS "Gateway" Program

12. Beginning in or about January 2000 and continuing into at least January 2001, GTS, at Smith's direction, offered telephone gateway investments ("gateway investments") to the general public.

13. Gateway investments were offered in units which included a telephone switch and a leaseback agreement. Essentially, GTS purported to be creating a long distance network. As represented to investors, GTS customers would dial a number and would be connected to the network through a switch, referred to as a gateway, in their city.

14. The gateway investments were sold through various means, including sales agreements with marketing companies. The marketing companies or their agents made the sale and GTS purportedly assigned a switch to the investor.

15. Under the gateway investment lease program, GTS was to manage the operations of the switches. GTS was to perform all services in connection with the selection, installation and management of the switch. The investor was to receive passive income. GTS offered two other programs in connection with the gateway investments. Both of those alternatives required the investor to manage the switch, which was not realistically possible. Few if any investors chose either of those options.

16. The switches were sold to investors through marketing companies for \$27,000 or \$54,000, with the more expensive switch purportedly able to handle more traffic. In fact, because of problems with the technology, the more expensive switches could not handle more traffic than the less expensive switches.

17. Under the gateway investment lease program, upon purchasing the switch, the investor then leased the switch back to GTS on a 48 month lease. In return for leasing back the switch, the investor was to receive monthly lease payments at a rate of 14 or 15 percent per year, (\$315 or \$675 per month,

depending on the switch) plus one half percent of gross revenues on the \$27,000 switch or one percent of the gross revenues from the \$54,000 switch.

18. Pursuant to at least some of the leases, the investor retained the right to liquidate the gateway investment at any time but a penalty would be assessed based upon the time remaining on the lease.

19. The GTS system never produced revenues. Among other things, GTS never obtained software which would enable it to bill for its services.

20. As of January 2001, GTS had sold 219 gateway investments to approximately 170 investors, most of whom are elderly. GTS raised up to \$10 million. GTS paid lease payments and business expenses by using funds invested by later investors and by investors in the Global Contact Call Center program described below.

#### Global Contact Call Center Program

21. During the Fall of 2000, Smith decided to abandon efforts to deploy switches. Without disclosure to investors, Smith began diverting funds from GTS investors to purchase the assets and lease of a telephone defunct call center. A call center is a telephone room which is equipped to handle telephone



inquiries on behalf of various businesses which are its customers.

22. In or about July 2000, Global Contact, initially under the name Global Call Centers, Inc., began selling and leasing back call center stations in a format similar to that used by GTS. A call center station is essentially a work station in a call center. The units sold to investors ("call center investments") included a call center station to be purchased by the investor, and a leaseback agreement between the investor and Global Contact.

23. Smith arranged for marketing agents to sell the call center stations to investors for \$9,750.

24. In exchange for leasing the call center stations back to Global Contact, the investors were to receive a fixed lease payment, plus one half or one percent of the revenues from the station, with the higher rate of return for investors who purchased five or more stations. In its initial program, Global Contact also offered options which required the investor to manage the call center station. Investors did not realistically have the ability to manage the stations and few if any investors chose those options.

25. After the commencement of the scheme, the format was changed so that the selling agent purchased the station using funds from the investor. The selling agent leased the call center back to Global Contact and the investor received a "secured" note from the selling agent which entitled the investor to monthly principal and interest at a rate of 16 percent per year for 48 months. The note was purportedly secured by a security interest filing on the station equipment.

26. In fact, although Global Contact has sold in excess of 120 stations, Global Contact has only established 44 stations, most of which do not have personnel assigned to them, and has not received revenue from the call center.

27. Payments to investors and other creditors and for business expenses have been made using funds from later investors. Global Contact is currently raising \$50,000 to \$70,000 per week from investors.

28. Investors in the call center lease program had no active role in the management of the call centers. Investors were to receive passive income from the investment.

29. The investments offered by the GTS gateway program and the Global Contact Call Center lease program are investment

contracts and therefore securities. The notes offered by the revised Global Contact program are also securities.

30. No registration statement has been filed with the Commission in connection with the offer and sale of these investment contracts and notes. No exemption from registration is applicable.

#### MISREPRESENTATIONS AND OMISSIONS

31. Minimal disclosure has been provided to investors and prospective investors in the gateway and call center investment programs. Investors generally have received no information describing the financial condition of GTS or Global Contact.

32. The GTS sales package for the gateway investment program was provided to investors and sales agents by Smith and others acting at his direction. The GTS sales package includes a "Basic Disclosure Statement" which describes the investment and contains other general information. The document does not contain financial information concerning GTS. The disclosure document contains brief descriptions of the company, brief biographies of management, and descriptions of the payphone management options available to investors.

33. The Global Contact sales brochure was provided to prospective investors and sales agents at Smith's direction. The

Global Contact sales package also contains only general information about Global Contact, with some documents giving general information about the growth of the call center business.

34. Smith provided income projections for both the GTS and the Global Contact programs to selling agents.

35. The income projections provided to selling agents by Smith have no reasonable basis in fact. For example, the Global Contact projections assume 75,000 call center stations deployed over five years and \$87,783 average annual income per station. Projections regarding the GTS gateway investment suggest revenues of up to hundreds of dollars per month per switch.

37. Neither the GTS investors nor the Global Contact investors have been advised of the financial condition of GTS and Global Contact. Both companies are insolvent and function only by using monies from new investors to pay business expenses and amounts owed to previous investors.

38. Although GTS and Global Contact, with regard to its initial program, agreed to liquidate an investor's investment should the investor request a liquidation, neither GTS nor Global Contact has funds to make good on that representation.

39. Without disclosure to investors, Smith diverted funds from investors in GTS gateways to start the call center business and did not disclose that GTS had ceased deploying gateways.

40. The GTS and the initial Global Contact documents represent that GTS or Global Contact will deposit sufficient funds into a "sinking fund" to provide for the return of investment at the end of the lease, with the first six months of funds due at commencement. For example, this would require a deposit of \$6,750 at the commencement of every \$54,000 lease, with additional payments due starting at the seventh month.

41. In September 2000, the sinking fund contained at least \$930,000. Without disclosure to investors, Smith has been using the sinking fund for business expenses of GTS or Global Contact and, in some instances, to speculate in the stock market. There is only approximately \$1,400 remaining in the fund.

42. Smith controlled both GTS and Global Contact. He contracted with selling agents to market the programs and personally solicited some investors. Smith was aware at all times of the financial condition of the companies, the use of sinking fund monies to fund expenses and the use of investors' funds to pay returns to earlier investors.

COUNT I

**FRAUD**

**Violations of Section 17(a)(1) of the Securities Act  
[15 U.S.C. 77q(a)(1)]**

43. Paragraphs 1 through 42 are hereby realleged and are incorporated herein by reference.

44. From in or about January 2000 through the present, defendants GTS and Smith, and from July 2000 continuing through the present, Global Contact, singly and in concert, in the offer and sale of securities, by the use of means and instruments of transportation and communication in interstate commerce and by use of the mails, directly and indirectly, employed devices, schemes and artifices to defraud purchasers of such securities, all as more particularly described above.

45. The defendants knowingly, intentionally, and/or recklessly engaged in the aforementioned devices, schemes and artifices to defraud.

46. By reason of the foregoing, defendants GTS, Global Contacte and Smith have violated, and, unless restrained and enjoined, will continue to violate Section 17(a)(1) of the Securities Act [15 U.S.C. 77q(a)(1)].

COUNT II

FRAUD

**Violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. 77q(a)(2) and 77q(a)(3)]**

47. Paragraphs 1 through 42 are hereby realleged and are incorporated herein by reference.

48. From in or about January 2000 through the present, defendants GTS and Smith, and from July 2000 continuing through the present, Global Contact, in the offer and sale of securities, by use of means and instruments of transportation and communication in interstate commerce and by use of the mails, directly and indirectly:

- (a) obtained money and property by means of untrue statements of material facts and omissions 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; and
- (b) engaged in transactions, practices and courses of business which operated and would operate as a fraud and deceit upon the purchasers of such securities,

all as more particularly described above.

49. By reason of the foregoing, defendants GTS, Global Contact and Smith have violated, and, unless restrained and enjoined, will continue to violate Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. 77q(a)(2) and (3)].

COUNT III

FRAUD

Violations of Section 10(b) of the Exchange Act  
[15 U.S.C. 78j(b)] and Rule 10b-5 Thereunder  
[17 C.F.R. 240.10b-5]

50. Paragraphs 1 through 42 are hereby realleged and are incorporated herein by reference.

51. From in or about January 2000 through the present, defendants GTS and Smith, and from July 2000 continuing through the present, Global Contact, in connection with the purchase and sale of securities, by the use of means and instrumentality's of interstate commerce and by use of the mails, directly and indirectly:

- (a) employed devices, schemes, and 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 the light of the



circumstances under which they were made, not misleading; and

(c) engaged in acts, practices, and courses of business which operated as a fraud and deceit upon persons, all as more particularly described above.

52. Said defendants knowingly, intentionally and/or recklessly engaged in the above-described conduct.

53. By reason of the foregoing, defendants GTS, Global Contact and Smith have violated, and, unless restrained and enjoined will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. 240.10b-5].

#### COUNT IV

##### UNREGISTERED OFFERING OF SECURITIES

##### Violations of Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. 77e(a) and 77e(c)]

54. Paragraphs 1 through 42 are hereby realleged and are incorporated herein by reference.

55. No registration statement has been filed or is in effect with the Commission pursuant to the Securities Act and no exemption from registration exists with respect to the investment contracts and notes and transactions in such interests described herein.

56. From a date unknown, but since at least in or about January 2000 continuing through the present, defendants GTS and Smith, and from July 2000 continuing through the present, Global Contact, singly and in concert, have and, unless enjoined, will continue to:

- a. make 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. carry securities or cause 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 for delivery after sale; and
- c. make 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 securities, through the use or medium of any prospectus or otherwise, without a registration statement having been filed with the Commission as to such securities.

56. By reason of the foregoing, defendants GTS, Global Contact and Smith, directly and indirectly, singly and in concert, have violated, and unless enjoined, will continue to violate

Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. § 77e(a) and 77e(c)].

**PRAYER FOR RELIEF**

**WHEREFORE**, Plaintiff Securities and Exchange Commission respectfully prays for:

**I.**

Findings of Fact and Conclusions of Law pursuant to Rule 52 of the Federal Rules of Civil Procedure, finding that the defendants committed the violations alleged herein.

**II.**

A temporary restraining order, preliminary and permanent injunctions, restraining and enjoining defendants, their officers, agents, servants, employees, attorneys, and those persons in active concert or participation with them who receive actual notice of the order of injunction, and each of them, whether as principals or as aiders and abettors, from violating Sections 5(a), 5(c) and 17(a) of the Securities Act [15 U.S.C. 77e(a), 77e(c) and 77q(a)], and Section 10(b) of the Exchange Act [15 U.S.C. 78j(b)] and Rule 10b-5 [17 C.F.R. 240.10b-5] promulgated thereunder

III.

An order requiring accountings by defendants of the use of proceeds of the sales of the securities described in this Complaint and the disgorgement of all ill-gotten gains or unjust enrichment with prejudgment interest, to effect the remedial purposes of the federal securities laws, and an order freezing the assets of the defendants, to preserve the status quo.

IV.

An order 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)] imposing civil penalties against defendants.

V.

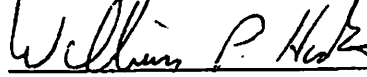
An order appointing a receiver to marshal the assets of GTS and Global Contact and to take other actions necessary to achieve a just distribution of those assets.

VI.

Such other and further relief as this Court may deem just, equitable, and appropriate in connection with the enforcement of the federal securities laws and for the protection of investors.

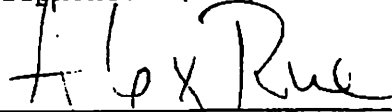
DATED: 3/7 2001

RESPECTFULLY SUBMITTED,



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