

RECEIVED
JUN 8 1 22 PM '01

BY
glw

1 Robert Hunt (Utah Bar# 5722)
2 Brent Baker (Utah Bar # 5247)
3 Securities and Exchange Commission
4 Salt Lake District Office
5 50 South Main, Suite 500
6 Salt Lake City, Utah 84144
7 (801) 524-5796

8 **UNITED STATES DISTRICT COURT**
9 **DISTRICT OF NEVADA**

10 CV-S-01-0658-PMP-LRL

11 SECURITIES AND EXCHANGE COMMISSION

12 Plaintiff,

13 v.

14 World Homes, Inc.; Merle Ferguson
15 and Susan Donahue

16 Defendants,

17 **COMPLAINT FOR**
18 **PRELIMINARY**
19 **INJUNCTION AND**
20 **OTHER EQUITABLE RELIEF**

21 Plaintiff Securities and Exchange Commission ("Commission") for its Complaint against
22 World Homes, Inc. ("World Homes") and Merle Ferguson ("Ferguson") and Susan Donahue
23 ("Donahue") alleges as follows:

24 **INTRODUCTION**

25 1. This case involves the misrepresentation of material information by Ferguson and
26 World Homes regarding World Homes' business operations and revenue and earnings
projections. In addition, World Homes, Ferguson and Donahue engaged in sales of unregistered
securities over a period of nearly two years in order to finance World Homes' operations.

World Homes, Inc. is a publicly traded corporation that claims to provide
affordable fireproof, hurricane-proof, insect proof and earthquake proof housing from a patented
construction material called "Z-Mix." According to World Homes, the buildings are constructed

1 in a single cement pour.

2 3. Since on or about January 2000 and through on or about February 6, 2001, World
3 Homes has published over 40 press releases. All of these releases were written by Merle
4 Ferguson, the company's President and Chief Executive Officer, and distributed over the news
5 wires. Several of these press releases misrepresent, among other things, the following material
6 facts: 1) That World Homes operated and maintained a production facility for its cement product;
7 2) that World Homes possessed financing loans of fifteen million dollars; and 3) that World
8 Homes had generated over 480 million dollars in contracted business. These false press releases
9 resulted in an increase in the price of World Homes' common stock. World Homes Inc. securities
10 are sold on the OTC Billboard public market.

11 4. World Homes stock continues to the present day to trade on the OTC Billboard
12 Exchange with a consistent volume of over 100,000 shares traded daily.

13 5. On or about March 30, 2001, an attorney for the Commission contacted World
14 Homes and Merle Ferguson to notify them that it was the Commission's determination that these
15 releases appeared to be false. Despite this notification, World Homes has not corrected the
16 publicly available information. The false information continues to be disseminated to the market
17 and has not been corrected on or of the date of this Complaint. There is a likelihood the wrongful
18 conduct will be repeated absent the entry of a preliminary injunction.

19 **JURISDICTION AND VENUE**

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

23 7. Venue is proper in this district pursuant to Section 22(a) of the Securities Act and
24 Section 27 of the Exchange Act [15 U.S.C. §§ 77u(a) and 78aa].

25 8. In connection with the transactions, acts, practices, and courses of business
26 described in the Complaint, each of the defendants, directly and indirectly, has made use of the

1 means or instrumentalities of interstate commerce, of the mails, the internet or other means and
2 instruments of transportation or communication in interstate commerce.

3 9. Donahue and Ferguson both live in Las Vegas. Until recently, (April 18, 2001)
4 World Homes' corporate offices were located in Las Vegas. In addition, certain transactions, acts,
5 practices, and courses of business constituting the violations of law alleged herein occurred
6 within this judicial district, including but not limited to the preparation and dissemination of the
7 press releases and the offer and sale of the unregistered securities.

8 **THE DEFENDANTS**

9 10. **World Homes, Inc**, a Las Vegas, Nevada corporation, was headquartered in Las
10 Vegas until April 18, 2001, when it moved its headquarters to Madison, Wisconsin. World
11 Homes and its predecessor companies have been filing periodic reports with the Commission
12 under Section 15(d) of the Exchange Act since 1992. The company claims to have more than
13 1250 shareholders.

14 11. **Merle Ferguson** is the President and CEO of World Homes. Ferguson resides in
15 Las Vegas, Nevada.

16 12. **Susan Donahue** is the Secretary/Treasurer of World Homes and assisted
17 Ferguson in running World Homes. Donahue resides in Las Vegas, Nevada.

18 **THE NATURE OF THE FRAUDULENT CONDUCT**

19 13. World Homes began publishing press releases over the PR newswire and on the
20 Internet on or about January, 2000 and continues to do so.

21
22 **The Production Facility**

23 14. On or about March 13, 2000, Ferguson issued a press release on behalf of World
24 Homes over the PR Newswire announcing acquisition of a manufacturing facility in Louisiana at
25 which it projected to be World Homes' "first Z Mix Factory."
26

1 15. The press release stated Ferguson was "pleased to consummate this transaction, as
2 it gives [World Homes] an immediate production facility." However, World Homes never
3 acquired the plant, and the plant was ultimately sold to an unrelated party at a sheriff's sale.

4 16. World Homes has never corrected the misrepresentations in a subsequent press
5 release.

6 **The Financing Loans**

7 17. On or about March 20, 2000, Ferguson issued a press release on behalf of World
8 Homes claiming that World Homes received a loan for \$15 million from an entity identified as
9 EuroFederal Bank. A subsequent press release dated April 13, 2000, announced a reduction in
10 the amount of the loan to \$5 million.

11 18. World Homes' Form 10-QSB for the quarter ended March 31, 2000, stated the
12 loan was secured by 15 million shares of World Homes restricted stock and a bond provided by a
13 subsidiary of American International Group, Inc. ("AIG").

14 19. However, AIG never produced a bond and the documents relating to the
15 transaction were fraudulent.

16 20. World Homes has never corrected the misrepresentations in a subsequent press
17 release.

18 **Financial Projections**

19 21. On February 6, 2001, World Homes issued a press release announcing its fiscal
20 2002 earnings projections. Although the Company had reported no revenue for the previous 18
21 months and the company's Form 10-QSB/A filed on February 28, 2001, reported no revenue and
22 a net loss of \$555,782 for three months ending December 31, 2000, the press release forecasted
23 "gross profits in fiscal 2002 of \$30,000,000 on gross sales of \$480,000,000 based upon the recent
24 contracts and letter of intent."
25
26

1 22. These alleged contracts and letter of intent either did not exist or could not have
2 reasonably been expected to generate revenues even approaching the amounts projected in the
3 press release.

4 23. World Homes has never corrected the misrepresentations in a subsequent press
5 release.

6 ***1. Tristar***

7 24. Approximately \$368 million in revenue was allegedly derived from contracts
8 which Tristar USA had made with the government of Nigeria. Tristar is owned and controlled by
9 Rodney Whitney ("Whitney"). In a press release dated June 22, 2000, Ferguson claimed that the
10 "total of Tristar's existing contracts, as well as those being negotiated, will be worth in excess of
11 \$250 million, with funding provided by major oil companies or the World Bank." However,
12 neither World Homes nor Tristar ever had any contracts.

13 25. Nigerian officials requested technical specifications on World Homes' Z-Mix
14 house and evidence the house had been tested and determined to be structurally sound or in
15 compliance with a uniform building code. Ferguson failed to provide the needed information.

16 26. Based on World Homes' failure to provide the needed information, there did not
17 exist an order or agreement with the Nigerian government that supported Ferguson and World
18 Homes' earnings projections. Nevertheless, Ferguson and World Homes issued press releases as
19 if actual contracts or orders had been obtained. Whitney told Ferguson several times to stop
20 putting this preliminary information in press releases, but Ferguson refused.

21 27. World Homes has never corrected the misrepresentations in a subsequent press
22 release.

23 ***2. St. Lucia***

24 28. Ferguson and World Homes also relied on an alleged \$50 million contract with
25 Caribbean Homes and Products, Ltd when calculating their earnings projections. Worl Homes
26

1 allegedly had entered into an agreement with St. Lucia to relating construct homes made of Z-Mix.

2 29. However, World Homes has not entered into any agreements involving
3 construction of homes on St. Lucia and there does not exist any agreement which could be relied
4 on as a basis for the earnings projections.

5 30. World homes has never corrected the misrepresentations in a subsequent press
6 release.

7 ***3. Contracts with L.W. Freeman***

8 31. On January 30, 2001, Ferguson and World Homes disseminated a press release
9 stating the company had signed a letter of intent with L.W. Freeman ("Freeman") and World
10 Consultants Corp. for the construction of an aggregate of 10,000 homes a month for a period of
11 five years in three unidentified countries. The press release also announced that Freeman was in
12 final negotiations with seven additional countries that would increase its orders to approximately
13 50,000 homes per month for a five-year period.

14 32. However, Freeman only possesses verbal commitments from various entities that
15 could only be memorialized "if all of the other details, including funding, were completed."
16 Freeman has not placed any orders for homes and there are no contracts or agreements which
17 could underpin World Homes' earnings projections.

18 33. World homes has never corrected the misrepresentations in a subsequent press
19 release.

20 ***4. Al Nasr Trading & Investments Corp.***

21 34. The fourth agreement on which World Homes' revenue projections were based
22 was with an entity called Al Nasr Trading & Investments Corp. of Riyadh, Saudi Arabia.
23 Ferguson valued this agreement at \$365 million.

24 35. On or about August 15, 2000, World Homes issued a press release announcing a
25 signed letter of intent with Al Nasr. The release failed to disclose the agreement expired by its
26

1 terms in six months if World Homes failed to effect a private placement of at least \$7 million
2 within that time.

3 36. In a related press release Ferguson stated that the company is "extremely pleased
4 that Adnan Khashoggi, a director of Al Nasr, has decided to take a personal interest in our joint
5 venture."

6 37. Ferguson has never spoken with Khashoggi or anyone else at Al Nasr personally
7 nor have any of his agents or representatives and there does not exist any underlying contract or
8 agreement that would support World Homes' earnings projections.

9 38. World homes has never corrected the misrepresentations in a subsequent press
10 release.

11
12 **MISREPRESENTATIONS AND OMISSIONS MADE TO INVESTORS AND**
13 **POTENTIAL INVESTORS**

14 39. As part of and in furtherance of their fraudulent course of conduct, Ferguson and
15 World Homes and their agents, in the offer and sale of the securities, made numerous material
16 misrepresentations and omissions. Those misrepresentations and omissions include, but are not
17 limited to, the following material facts:

18 a. World Homes falsely stated in its press releases that it had a production
19 facility when it did not.

20 b. World Homes falsely stated in its press releases that it had received over
21 15 million dollars in loans to fund its operations when it did not.

22 c. World Homes falsely stated in its press releases that it had contracts to sell
23 and build homes when it did not have such contracts.

24 d. The revenue projections made in the February 6, 2001, release had no
25 factual basis and were supported only by non-existent contracts.

26

1 **VIOLATIONS OF 5(A) AND 5(C) OF THE SECURITIES ACT**

2 40. From on or about July 16, 1999, through on or about February 20, 2001, World
3 Homes made nine filings on Form S-8, registering 4,892,977 shares with a stated maximum
4 value of \$3,777,313 to Ferguson and Donahue, or entities controlled by Ferguson and Donahue.

5 41. Form S-8 is used to permit employees or consultants to receive shares of a
6 company as compensation. It may not be used as a means of raising capital for a company
7 without further steps to ensure the shares are properly registered with the Commission.

8 42. The shares issued to Ferguson, Donahue and other entities controlled by them
9 were issued in large part not to compensate those employees, but to raise capital for World
10 Homes.

11 43. Ferguson and Donahue sold these shares into the market and remitted most of the
12 proceeds to World Homes, which used the funds to finance operations.

13 44. Ferguson and Donahue filed no registration statement with respect to the resales
14 and no exemption from registration was available with respect to these offers and sales.

15 **FIRST CAUSE OF ACTION (Ferguson and World Homes)**
16 **(Violation of Exchange Act Section 10(b) and rule 10b-5)**

17 45. Plaintiff repeats and re-alleges Paragraphs 1 through 44 above.

18 46. Defendants, Ferguson and World Homes with scienter, in connection with the
19 purchase or sale of securities, the use of means or instrumentalities of interstate commerce or of
20 the mails directly or indirectly: (a) employed devices, schemes or artifices to defraud; (b) made
21 untrue statements of material facts or omitted to state material facts necessary in order to make
22 the statements made, in the light of the circumstances under which they were made, not
23 misleading; or (c) engage in acts, practices or courses of business which operated or would
24 operate as a fraud or deceit upon purchaser of securities in violation of Section 10(b) of the
25 Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 [17 C.F.R. §240.10b-5].
26

1 47. By reason of the foregoing, Defendants Ferguson and World Homes violated
2 Section 10(b) of the Exchange Act and Rule 10b-5 and unless restrained and enjoined will
3 continue to do so.

4
5 **SECOND CAUSE OF ACTION (Ferguson and World Homes)**
6 **(Violations of Securities Act Section 17(a)(1))**

7 48. Plaintiff repeats and re-alleges paragraphs 1 through 47 above.

8 49. Defendants, Ferguson and World Homes, with scienter, in the offer or sale of
9 securities, by the use of means or instrumentalities of transportation or communication in
10 interstate commerce, or by the use of the mails, directly or indirectly employed devices, schemes
11 or artifices to defraud in violation of Section 17(a)(1) or the Securities Act [15 U.S.C. § 77q(a)].

12 50. By reason of the foregoing, Defendants Ferguson and World Homes violated
13 Section 17(a)(1) of the Securities Act and unless restrained and enjoined will continue to do so.

14 **THIRD CAUSE OF ACTION (Ferguson and World Homes)**
15 **(Violations of Securities Act Section 17(a)(2) and (3))**

16 51. Plaintiff repeats and re-alleges Paragraphs 1 through 50 above.

17 52. Defendants, Ferguson and World Homes, in the offer or sale of securities, by the
18 use of means or instruments of transportation or communication in interstate commerce, or by the
19 use of the mails, directly or indirectly (a) obtained money or property by means of untrue
20 statements of material facts or omissions to state material facts necessary in order to make the
21 statements made, in the light of the circumstances under which they were made, not misleading;
22 or (b) engaged in transactions, practices or courses of business which operated or would operate
23 as a fraud or deceit upon purchasers of securities in violation of Section 17(a)(2) and (3) of the
24 Securities Act [15 U.S.C. § 77q(a)(2) and (3)].
25
26

1 **FOURTH CAUSE OF ACTION (Ferguson, Donahue and World Homes)**
2 **(Violation of Section 5(a) and 5(c) of the Securities Act [15 U.S.C. §§77e(a) and 77e(c)]**

3 53. The allegations contained in paragraphs 1 through 52 are re-alleged and
4 incorporated by reference.

5 54. Defendants, and each of them, by engaging in the conduct described in paragraphs
6 1 through 47 above, directly or indirectly, through use of the means or instruments of
7 transportation or communication in interstate commerce or the mails, offered to sell or sold
8 securities in the form of stock or directly or indirectly, or carried such securities to be carried
9 through the mails or in interstate commerce, for the purpose of sale or delivery after sale.

10 55. No registration statement has been filed with the Commission or has been in
11 effect with respect to these securities.

12 56. By reason of the foregoing, the defendants, directly or indirectly violated, and
13 unless enjoined will continue to violate Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§
14 77e(a) and 77e(c)].

15 **PRAYER FOR RELIEF**

16 Wherefore, The Commission respectfully requests that this Court:

17 I.

18 Issue findings of fact and conclusions of law that Ferguson, Donahue and World
19 Homes committed the violations charged and alleged herein.

20 II.

21 Issue an Order in a form consistent with Rule 65(d) of the Federal Rules of Civil
22 Procedure, preliminarily and permanently enjoining defendant Susan Donahue, and her
23 servants, employees and attorneys, and their officers, agents, servants, employees and
24 attorneys and those persons in active concert or participation with any of them, who
25 receive actual notice of the order by personal service or otherwise and each of them, from
26 engaging in the transactions, acts, practices and courses of business described herein, and

1 from engaging in conduct of similar purport and object in violation of Section 5(a), and
2 5(c) of the Securities Act.

3 III.

4 Issue an Order in a form consistent with Rule 65(d) of the Federal Rules of Civil
5 Procedure, preliminarily and permanently enjoining the defendants World Homes, Inc.
6 and Merle Ferguson and their officers, servants, employees and attorneys, and their
7 officers, agents, servants, employees and attorneys and those persons in active concert or
8 participation with any of them, who receive actual notice of the order by personal service
9 or otherwise and each of them, from engaging in the transactions, acts, practices and
10 courses of business described herein, and from engaging in conduct of similar purport and
11 object in violation of Section 5(a), 5(c) and 17(a) of the Securities Act, and Section 10(b)
12 of the Exchange Act and Rule 10b-5 thereunder.

13
14 IV.

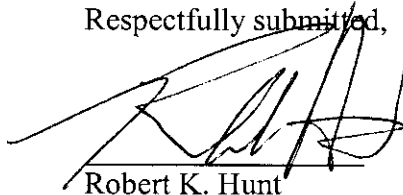
15 Enter an Order that Ferguson pay civil fines and/or penalties pursuant to Section
16 21(d)(3) of the Exchange Act, or under the Securities Enforcement Remedies and Penny
17 Stock Reform Act of 1990. [15 U.S.C. 78(u)(d)(3); 15 U.S.C. 77(u)(d)(3)]
18
19
20
21
22
23
24
25
26

V.

1
2 Lastly, the Commission requests, as to all the defendants, that this Court retain
3 jurisdiction over this action in accordance with the principles of equity and the Federal
4 Rules of Civil Procedure in order to implement and carry out the terms of all orders and
5 decrees that may be entered, or to entertain any suitable application or motion for
6 additional relief within the jurisdiction of this Court.

7 Dated this 8th day of June, 2001.

8
9 Respectfully submitted,

10 

11 Robert K. Hunt
12 Brent Baker
13 Attorneys for Plaintiff
14 Securities and Exchange Commission
15 50 South Main, Suite 500
16 Salt Lake City, UT 84144
17
18
19
20
21
22
23
24
25
26