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3 214 of the Investment Advisers Act of 1940 [15 U.S.C. §§ 80b-9(d), 80b-14].

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5 2. The defendants made use of the means and instrumentalities of interstate commerce or of  
6 the mails in connection with the acts, practices, and courses of business alleged herein, certain of  
7 which occurred in the District of Nevada.

8 3. Venue is proper in this District pursuant to Section 27 of the Securities Exchange Act of  
9 1934 and Section 214 of the Investment Advisers Act of 1940 [15 U.S.C. §§ 78aa, 80b-14].  
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11 **SUMMARY OF ALLEGATIONS**

12 4. This is a case about a fraud perpetrated by two investment advisory firms, Magellan  
13 Communications Group, LLC and Northern Lights Financial, LLC, both of which made material  
14 misrepresentations to their clients and prospective clients and sent false monthly account statements  
15 to clients. The two individual defendants, Joseph Lloyd Norris and Mark Gray Coleman, operated  
16 Magellan Communications and Northern Lights. Beginning in July 1998 and continuing into 2000,  
17 Norris and Coleman raised approximately \$8.5 million in client funds by promising to invest the  
18 money in offshore "trading programs" and to deliver returns of four to seven percent per month.  
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20 5. The characteristics of the so-called "trading programs" touted by Norris and Coleman  
21 were typical of fraudulent "prime bank" schemes, which usually promise phenomenal returns at no  
22 risk to principal, purportedly generated by trading high yield debt instruments in secret markets  
23 accessible only through authorized traders. Supposedly, major international banks issue these high  
24 yield instruments with the support of the Federal Reserve, the World Bank, the International  
25 Chamber of Commerce, or other well-known organizations. In reality, the instruments are fictitious,  
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3 the markets are non-existent, and the organizations claimed as sponsors have uniformly denied any  
4 involvement in the purported trading programs and have warned that such programs are frauds.  
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6 6. Norris and Coleman lost approximately \$6 million of their clients' funds by attempting to  
7 invest in such "trading programs." In April 1999, they became aware that they had lost \$2 million  
8 but, without disclosing the loss, they continued to encourage clients and prospective clients to  
9 deposit money with them. They mailed monthly account statements to their clients falsely reflecting  
10 the preservation of principal and the accrual of "earnings" as if no loss had occurred. When Norris  
11 and Coleman became aware that an additional \$4 million had been lost, they continued to seek  
12 additional client deposits without disclosing the losses and continued mailing fictitious account  
13 statements to their existing clients.  
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15 7. By engaging in the acts alleged herein, the defendants, directly and indirectly, have  
16 engaged in, and unless restrained and enjoined by the Court will continue to engage in, transactions,  
17 acts, practices and courses of business that violate Section 10(b) of the Securities Exchange Act of  
18 1934 [15 U.S.C. § 78j(b)], Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5], and Section 206(1) and  
19 (2) of the Investment Advisers Act of 1940 [15 U.S.C. § 80b-6(1) & (2)].  
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21 8. The Commission seeks a judgment from the Court: (a) enjoining Norris, Coleman,  
22 Magellan Communications and Northern Lights from engaging in future violations of the above  
23 sections of the federal securities laws; (b) requiring each of the defendants to account for and  
24 disgorge, with prejudgment interest, the illegal profits and proceeds they obtained as a result of their  
25 actions alleged herein; and (c) requiring each of the defendants to pay a civil money penalty pursuant  
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3 to Section 21(d)(3) of the Securities Exchange Act of 1934 and Section 209(e) of the Investment  
4 Advisers Act of 1940 [15 U.S.C. §§ 78u(d)(3), 80b-9(e)].  
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7 **THE PARTIES**

8 9. The plaintiff is the Securities and Exchange Commission, which brings this case pursuant  
9 to authority conferred on it by Section 21(d) and (e) of the Securities Exchange Act of 1934 [15  
10 U.S.C. § 78u(d) & (e)] and Section 209(d) of the Investment Advisers Act of 1940 [15 U.S.C. § 80b-  
11 9(d)].

12 10. Defendant Joseph Lloyd Norris, age 54 [dob 10/12/47], is a resident of Carson City,  
13 Nevada. Since at least mid-1998 Norris, singly and in concert with defendants Magellan  
14 Communications and Northern Lights, has acted as an investment adviser, for compensation, to  
15 more than thirty clients. Since mid-1998, Norris obtained in excess of \$8 million from clients for  
16 the purpose of investing it in "trading programs."  
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18 11. Defendant Mark Gray Coleman, age 46 [dob 1/29/56], is a resident of Carson City,  
19 Nevada, with approximately nineteen years of banking experience prior to being hired by Norris in  
20 January 1999 to help him attract investment advisory clients. Coleman introduced prospective  
21 clients to Norris and performed administrative tasks for Magellan Communications and Northern  
22 Lights such as maintaining the records of their client accounts and, at Norris' direction, preparing  
23 monthly account statements and mailing them to clients.  
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25 12. Defendant Magellan Communications Group, LLC is a Nevada limited liability  
26 corporation formed in 1998 and controlled by Norris, with its principal place of business at 304  
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3 West 5th Street, Carson City, Nevada. Norris conducted an investment advisory business under the  
4 name of Magellan Communications, and he and Coleman placed money that clients entrusted to  
5 them into the corporation's accounts.  
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7 13. Defendant Northern Lights Financial, LLC is a Nevada limited liability corporation  
8 formed in 1997 and controlled by Norris, with its principal place of business at 304 West 5th Street,  
9 Carson City, Nevada. Norris conducted an investment advisory business under the name of  
10 Northern Lights, and he and Coleman placed money that clients entrusted to them into the  
11 corporation's accounts.  
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13 **FACTS**

14 14. Beginning in approximately July 1998 and continuing into 2000, Joseph Lloyd Norris  
15 and Mark Gray Coleman raised approximately \$8.5 million in client funds, of which they lost more  
16 than \$6 million.  
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18 **I. THE DEFENDANTS CONCEALED THE LOSS**  
19 **OF \$2 MILLION IN CLIENT FUNDS.**

20 15. From July 1998 to approximately April 1999, and doing business under the Northern  
21 Lights name, Norris obtained \$2 million from approximately twenty investment advisory clients by  
22 offering to invest their money in high yield, offshore, no-risk investments, and promising returns on  
23 principal of four to seven percent per month (which is equivalent to an annual return of 48 to 84  
24 percent). In January 1999, Coleman began working for Norris and assisted him in attracting new  
25 clients. As he collected the first \$2 million in client funds, Norris made the money available on a  
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3 rolling basis to an individual named Stewart Simonsen, ostensibly for the purpose of Simonsen's  
4 placing it in an offshore "trading program."  
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6 16. Initially, Northern Lights received from Simonsen monthly payments of money that  
7 purportedly represented profits, but not principal, from a "trading program." In April 1999, Norris  
8 requested that Simonsen return a portion of a particular client's principal, but Simonsen told Norris  
9 that all of the \$2 million had been stolen from him by a third person.

10 17. Even though they had lost \$2 million in client funds, Coleman continued, at Norris'  
11 direction, to mail monthly account statements to clients showing balances that included the full  
12 amount of the principal and the accrued return that the clients had been promised.  
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14 **II. THE DEFENDANTS CONCEALED THE LOSS**  
15 **OF \$4 MILLION IN CLIENT FUNDS.**

16 18. After April 1999, Norris and Coleman continued to raise money, under the names of  
17 Magellan Communications and Northern Lights, from new and existing clients for the purpose of  
18 investing it in "trading programs." They did not disclose to those clients either their failure to earn  
19 profits from an earlier "trading program" or their loss of \$2 million. As described below, they then  
20 lost an additional \$4 million, which they also concealed from their clients.  
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22 19. In his quest to identify an offshore "trading program" in which Magellan  
23 Communications could invest, in or about November 1999, Norris contacted Douglas A. McClain,  
24 Sr., a member of the board of directors of NextPath Technologies, Inc. McClain told Norris about a  
25 "trading program" with a \$10 million minimum requirement and, in order to meet that purported  
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3 minimum, offered to pool Norris' client funds with money belonging to a NextPath officer. At  
4 McClain's direction, Norris wire transferred the available client funds from Magellan  
5 Communications' bank account to NextPath's account for investment in the "trading program."  
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7 20. In approximately mid-December 1999, after Norris had wired a total of \$3.8 million to  
8 NextPath, McClain instructed him to apply this money to the purchase of restricted stock in  
9 NextPath at \$10 per share. McClain said that he would establish a line of credit using the restricted  
10 stock along with some of his own NextPath stock, and that he would invest the money obtained  
11 through the line of credit in a "trading program." Norris agreed to McClain's proposal.  
12

13 21. Norris arranged to have the restricted NextPath stock bought in the name of an offshore  
14 entity called Taylor Financial Group because McClain told him that the purchaser had to be an  
15 offshore entity. Taylor Financial executed a non-recourse, unsecured promissory note for the \$3.8  
16 million advanced by Magellan Communications for the purchase of the restricted stock. Norris  
17 caused Taylor Financial to execute three Regulation S subscription agreements, which were  
18 backdated to correspond to the dates and amounts of the wire transfers from Magellan  
19 Communications to NextPath. In early January 2000, Norris wired NextPath an additional \$215,000  
20 of client funds in order to buy 21,500 more shares of restricted NextPath stock in the name of Taylor  
21 Financial.  
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23 22. When the market price of NextPath common stock fell by more than 85 percent in little  
24 over three months, the \$4 million of client funds that Norris had invested in NextPath was  
25 substantially lost.  
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3 23. From November 1999 through July 2000, Norris and Coleman mailed false monthly  
4 account statements to the clients whose funds were used to buy the NextPath restricted stock. These  
5 account statements falsely reflected each client's principal and an investment return accrued at the  
6 promised rate.  
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8 24. Although they were not authorized to do so, Magellan Communications and Northern  
9 Lights used their clients' money to pay for routine business expenses such as rent, utilities and  
10 Norris' travel. Norris and Coleman took their compensation from client funds in monthly amounts  
11 ranging from \$3,500 to \$5,000 each. Clients who requested that they be paid all or a portion of their  
12 monthly interest on an ongoing basis were paid with money invested by other clients.  
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14 25. In July 2000, Norris and Coleman stopped mailing monthly account statements to clients  
15 but continued to raise money and to make disbursements without disclosing their losses.  
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17 **FIRST CLAIM**

18 **The Defendants' Violations of**  
19 **Exchange Act Section 10(b)**  
20 **And Rule 10b-5**

21 26. The Commission realleges and reincorporates herein paragraphs 1 through 25 above.

22 27. From at least mid-1998 and continuing until July 2000, Joseph Lloyd Norris, Magellan  
23 Communications and Northern Lights, and from at least January 1999 and continuing until July  
24 2000, Mark Gray Coleman, directly and indirectly, by use of the means or instrumentalities of  
25 interstate commerce or of the mails, in connection with the purchase or sale of securities: (a)  
26 employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or  
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3 omitted to state material facts necessary in order to make the statements made, in the light of the  
4 circumstances under which they were made, not misleading; and/or (c) engaged in acts, practices or  
5 courses of business which operated or would operate as a fraud or deceit upon the purchasers of the  
6 securities sold by the defendants.  
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8       28. The defendants' scheme included, among others, the following fraudulent devices,  
9 fraudulent acts, untrue statements of material fact, and material omissions:

10       a. The defendants falsely represented that their clients' investments were generating positive  
11 returns, when they knew or were reckless in not knowing that the investments were not generating  
12 positive returns.  
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14       b. The defendants mailed to their clients fraudulent monthly account statements showing the  
15 presence of principal and fictitious returns, thereby misrepresenting the value of the clients'  
16 accounts.  
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18       c. The defendants omitted to state, and actually concealed the fact, that their clients' money  
19 had been lost as a result of theft or market depreciation in the value of NextPath stock.

20       d. In soliciting additional money from new and existing clients, the defendants omitted to  
21 state that their prior attempt to invest in a "trading program" had failed to earn any profits and, in  
22 fact, had lost \$2 million of their clients' funds.  
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24       e. The defendants omitted to state that their clients' funds would be used in part for business  
25 expenses and for compensation to Norris and Coleman.  
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4 29. By reason of their actions alleged herein, Norris, Coleman, Magellan Communications  
5 and Northern Lights each violated Section 10(b) of the Securities Exchange Act of 1934 [15 U.S.C.  
6 § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5].

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8 **SECOND CLAIM**

9 **The Defendants' Violations of**  
10 **Investment Advisers Act Section 206(1) and (2)**

11 30. The Commission realleges and reincorporates herein paragraphs 1 through 25 above.

12 31. From at least mid-1998 and continuing until July 2000, Joseph Lloyd Norris, Magellan  
13 Communications and Northern Lights, directly and indirectly, by use of the means or  
14 instrumentalities of interstate commerce or of the mails, and while engaged in the business of  
15 advising others for compensation as to the advisability of investing in, purchasing or selling  
16 securities: (a) employed devices, schemes, or artifices to defraud; and (b) engaged in acts, practices  
17 or courses of business which operated or would operate as a fraud or deceit upon clients or  
18 prospective clients.  
19

20 32. The defendants' scheme included, among others, the following fraudulent devices,  
21 fraudulent acts, untrue statements of material fact, and material omissions:

22 a. The defendants falsely represented that their clients' investments were generating positive  
23 returns, when they knew or were reckless in not knowing that the investments were not generating  
24 positive returns.  
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b. The defendants mailed their clients fraudulent monthly account statements showing the presence of principal and fictitious returns, thereby misrepresenting the value of the clients' accounts.

c. The defendants omitted to state, and actually concealed the fact, that their clients' money had been lost as a result of theft or market depreciation in the value of NextPath stock.

d. In soliciting additional money from new and existing clients, the defendants omitted to state that their prior attempt to invest in a "trading program" had failed to earn any profits and, in fact, had lost \$2 million of their clients' funds.

e. The defendants omitted to state that their clients' funds would be used in part for business expenses and for compensation to Norris and Coleman.

33. By reason of their actions alleged herein, Norris, Magellan Communications and Northern Lights violated Section 206(1) and (2) of the Investment Advisers Act of 1940 [15 U.S.C. § 80b-6(1) & (2)].

34. By knowingly or recklessly concealing the defendants' losses of client funds and mailing monthly statements that misrepresented the value of client accounts, Mark Gray Coleman, by use of the means or instrumentalities of interstate commerce, or of the mails, aided and abetted Norris, Magellan Communications and Northern Lights in their violations of Section 206(1) and (2) of the Investment Advisers Act of 1940 [15 U.S.C. § 80b-6(1) & (2)].

**PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that the Court:

I.

Enter judgment in favor of the Commission finding that defendants Joseph Lloyd Norris, Mark Gray Coleman, Magellan Communications Group, LLC and Northern Lights Financial, LLC each violated the securities laws and Rule promulgated thereunder as alleged herein;

II.

Permanently enjoin each of the defendants from violating Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5 promulgated thereunder, and Section 206(1) and (2) of the Investment Advisers Act of 1940 [15 U.S.C. §§ 78j(b), 80b-6(1) & (2); 17 C.F.R. § 240.10b-5];

III.

Order each of the defendants to produce to the Commission a written, specific, sworn accounting of the disposition and present location of all the money they obtained from clients;

IV.

Order each of the defendants to disgorge the profits and proceeds they obtained as a result of their actions alleged herein and to pay prejudgment interest thereon;

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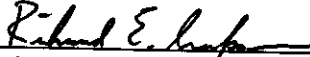
Order each of the defendants to pay a civil money penalty pursuant to Section 21(d)(3) of the Securities Exchange Act of 1934 and Section 209(e) of the Investment Advisers Act of 1940 [15 U.S.C. §§ 78u(d)(3), 80b-9(e)]; and

VI.

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

Dated: March 6, 2002

Respectfully submitted,

  
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