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CLERK U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIF.
LOS ANGELES

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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

95- 8608 WDK (AJWx)

SECURITIES AND EXCHANGE COMMISSION,

Civil Action No.

Plaintiff,

v.

COMPLAINT FOR TEMPORARY
RESTRAINING ORDER,
PRELIMINARY AND PERMANENT
INJUNCTIONS, APPOINTMENT
OF A RECEIVER, AND OTHER
EQUITABLE AND LEGAL
RELIEF

KS RESOURCES,
WESTSTAR EXPLORATION, INC.,
LAZAR FREDERICK & COMPANY,
JOHN K. JUDD, JR., MARK D. SEIGEL,
ALEXANDER L. KAHAN, BETTY A. RUBIN,
GUARDIAN INDUSTRIES, INC.,
PATHFINDER MINERALS GROUP, INC.,
ALEX KAHAN ENTERPRISES, INC.,
MID-WEST PRODUCTION, INC., and
JAMIE B. SEIGEL,

Defendants.

Plaintiff Securities and Exchange Commission (the
"Commission"), for its complaint, alleges as follows:

1. Defendants KS Resources, ("KS"); Lazar Frederick &
Company ("Lazar"); John K. Judd, Jr. ("Judd"); Mark D. Seigel
("M. Seigel"); and Betty A. Rubin ("Rubin"); and each of them,
directly or indirectly, have engaged, are now engaged, and unless

1 restrained and enjoined will continue to engage, directly or
2 indirectly, in transactions, acts, practices and courses of
3 business that constitute violations of Sections 5(a) and 5(c) of
4 the Securities Act of 1933, as amended ("Securities Act") [15
5 U.S.C. §§ 77e(a) and 77e(c)];

6 2. Defendants KS, Lazar, Weststar Exploration, Inc.
7 ("Weststar"), Judd, Seigel, Alexander L. Kahan ("Kahan") and
8 Rubin (collectively, the "Defendants") and each of them, directly
9 or indirectly, have engaged, are now engaged, and unless
10 restrained and enjoined will continue to engage, directly or
11 indirectly, in transactions, acts, practices and courses of
12 business that constitute violations of Section 17(a) of the
13 Securities Act [15 U.S.C. § 77q(a)] and Section 10(b) of the
14 Securities Exchange Act of 1934, as amended ("Exchange Act") [15
15 U.S.C. § 78j(b)] and Rule 10b-5 promulgated thereunder [17 C.F.R.
16 § 240.10b-5]; and

17 3. Defendants Lazar and Rubin, and each of them, directly
18 or indirectly, have engaged, are now engaged, and unless
19 restrained and enjoined will continue to engage, directly or
20 indirectly, in transactions, acts, practices and courses of
21 business that constitute violations of Section 15(c) of the
22 Exchange Act, as amended [15 U.S.C. § 78o(c)] and Rule 15c1-2
23 promulgated thereunder [17 C.F.R. § 240.15c1-2].

24 AUTHORITY TO BRING THIS ACTION

25 4. Plaintiff Commission brings this action pursuant to
26 Sections 20(b) and 20(d)(1) of the Securities Act [15 U.S.C.
27 §§ 77t(b) & 77t(d)(1)] and Sections 21(d)(1) and 21(d)(3)(A) of
28 the Exchange Act [15 U.S.C. §§ 78u(d)(1) & 78u(d)(3)(A)] to

1 restrain and enjoin the Defendants from engaging in the
2 transactions, acts, practices and courses of business alleged in
3 this Complaint, and transactions, acts, practices and courses of
4 business of similar purport and object and for other relief.

5 5. Plaintiff Commission, pursuant to authority granted to
6 it by Sections 10(b), 15(c) and 23(a) of the Exchange Act
7 [15 U.S.C. §§ 78j(b), 78o(c) & 78w(a)], has promulgated Rules
8 10b-5 and 15c1-2 [17 C.F.R. §§ 240.10b-5 & 240.15c1-2], which
9 rules were in effect at all times relevant herein and are still
10 in effect.

11 JURISDICTION AND VENUE

12 6. This Court has jurisdiction over this action pursuant
13 to Sections 20(b), 20(d)(1) and 22(a) of the Securities Act
14 [15 U.S.C. §§ 77u(b), 77u(d)(1) & 77v(a)] and Sections
15 21(d)(3)(A), 21(e) and 27 of the Exchange Act [15 U.S.C.
16 §§ 78u(d)(3)(A), 78u(e) & 78aa].

17 7. The Defendants, and each of them, directly or
18 indirectly, have made use of the mails, means or instruments of
19 transportation or communication in interstate commerce, or means
20 or instrumentalities of interstate commerce in connection with
21 the transactions, acts, practices and courses of business alleged
22 herein.

23 8. Venue over this action is proper pursuant to Section
24 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27
25 of the Exchange Act [15 U.S.C. § 78aa].

26 9. Certain of the transactions, acts, practices and
27 courses of business constituting the violations of law alleged
28 herein occurred within the Central District of California, and

1 each of the Defendants may be found in, inhabits or transacts
2 business in the Central District of California.

3 THE DEFENDANTS

4 10. KS Resources ("KS"), a California corporation, with its
5 principal place of business in Beverly Hills, California, is the
6 general partner of Mid-Continent Income Fund E, G, H, J, and K,
7 Secured Principal Energy Fund III-XII, XIV, Managed Energy Income
8 Fund I-VII, and Epic Fund I-VI (collectively the "Partnerships"),
9 the 29 oil and gas limited partnerships it formed. KS's
10 President and sole owner is John K. Judd, Jr.

11 11. Weststar Exploration, Inc. ("Weststar"), a California
12 corporation with its principal place of business in Beverly
13 Hills, California, is the enumerated "operator" of the oil and
14 gas wells. Weststar is owned in equal thirds by Mark D. Seigel,
15 Alexander L. Kahan, and Mark D. Seigel's sister-in-law, Jamie
16 Seigel and shares its office with KS.

17 12. Lazar Frederick & Company ("Lazar"), a California
18 corporation, with its principal place of business in Beverly
19 Hills, California, has been registered with the Commission as a
20 broker-dealer since 1984. Lazar is the exclusive selling agent
21 for the Partnerships. Lazar's President and sole owner is Betty
22 A. Rubin.

23 13. John K. Judd, Jr. ("Judd"), age 39, a Beverly Hills,
24 California resident and Certified Public Accountant, has been
25 KS's President and sole owner since February 1993.

26 14. Mark D. Seigel ("M. Seigel"), age 45 and a Beverly
27 Hills, California resident, is Weststar's Vice-President. On
28 April 30, 1986, M. Seigel consented to an entry of an order

1 permanently enjoining him from violations of Section 10(b) of the
2 Exchange Act [15 U.S.C. §§ 78j(b)] and Rule 10b-5 [17 C.F.R.
3 § 240.10b-5] thereunder, and from aiding and abetting violations
4 of the consumer protection and books and records provisions of
5 the Exchange Act, including Sections 15(c)(3) and 17(a), [15
6 U.S.C. §§ 78o(c)(3) and 78q(a)] for net capital violations
7 (periodically floating checks to maintain sufficient net
8 capital). See SEC v. Coastal Securities Corp., et al., Civil
9 Action No. 85-2996 RMT (C.D. Cal. 1986). He additionally
10 consented to a bar from associating with a broker, dealer,
11 municipal securities dealer, investment adviser or investment
12 company in a supervisory, proprietary, or financial principal
13 capacity, and a one-year bar from all association with such
14 persons or entities pursuant to Section 15(b) of the Exchange Act
15 [15 U.S.C. § 78o(b)]. See In the Matter of Mark D. Seigel,
16 Admin. Proc. File No. 3-6657, Exchange Act Release No. 34-23230
17 (May 14, 1986).

18 15. Alexander L. Kahan ("Kahan"), age 42, a Los Angeles,
19 California resident, and is a Weststar Vice-President and
20 Secretary. He holds various National Association of Securities
21 Dealers, Inc. ("NASD") licenses. In 1991, Kahan consented to a
22 censure of \$12,000 by the NASD for violations of Rule 15c2-4 of
23 the Exchange Act [17 C.F.R. § 240.15c2-4] (improper use of client
24 funds) in connection with oil and gas limited partnership
25 offerings (NASD Complaint File No. CO2 910038).

26 16. Betty A. Rubin ("Rubin"), age 47 and a Woodland Hills,
27 California resident, has been sole owner of Lazar since late

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1 summer 1992 and is its President. Rubin is a registered
2 representative who holds various NASD licenses.

3 DEFENDANTS NAMED SOLELY FOR THE PURPOSES

4 OF OBTAINING FULL RELIEF

5 17. Guardian Industries, Inc. ("Guardian"), a Nevada
6 corporation with its principal place of business in Van Nuys,
7 California, is wholly-owned by M. Seigel and Kahan.

8 18. Pathfinder Minerals Group, Inc. ("Pathfinder"), a
9 California corporation, is M. Seigel's wholly-owned personal
10 service corporation.

11 19. Alex Kahan Enterprises, Inc. ("AKE"), a California
12 corporation, is Kahan's wholly-owned personal service
13 corporation.

14 20. Mid-West Production, Inc. ("Mid-West"), a Nevada
15 corporation, is Judd's wholly-owned personal service corporation.

16 21. Jamie B. Seigel ("J. Seigel"), a Tulsa, Oklahoma
17 resident, is the wife of Andrew B. Seigel ("A. Seigel"),
18 Weststar's President and M. Seigel's brother.

19 RELATED ENTITY

20 22. Westar Exploration, Inc. ("Westar") (pronounced "Wee-
21 star"), an Oklahoma corporation, with its principal place of
22 business in Tulsa, Oklahoma, owned in part by M. Seigel,
23 originally served as the partnership operator for the limited
24 partnerships for which KS acts as general partner. At present,
25 M. Seigel, Kahan and J. Seigel each own one-third of Westar's
26 shares.

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24. In offering and selling the unregistered securities, the Defendants misrepresented and omitted to state material facts concerning the Defendants' use of approximately 51% of investor funds and the source of the approximate 10% to 12% "returns" paid by the Partnerships.

(1) The General Partner - KS Resources

26. Judd and M. Seigel, with input from Rubin and Kahan, draft offering materials, which consist of private placement memoranda ("PPMs") and highlight brochures. Judd also signs all checks on behalf of KS and the Partnerships.

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1 27. KS's duties as general partner included maintaining
2 bank accounts, accounting, mailing monthly distribution checks to
3 the Partnerships' investors, reviewing lease interest prospects
4 being acquired, and filing year-end tax returns.

5 28. KS also employs Kahan and M. Seigel, Weststar's and
6 Westar's principals, as purported "consultants" who make
7 presentations to Lazar's sales agents for every new Partnership,
8 and perform administrative tasks. Kahan, in particular, keeps
9 track of the number of accredited investors as each Partnership
10 is sold. M. Seigel, in particular, reviews proposed property
11 acquisitions.

12 (2) The Partnership Operator - Weststar Exploration, Inc.

13 29. As partnership operator, Weststar's primary duty is to
14 acquire, market, develop and operate the oil and gas lease
15 interests for the Partnerships. The Partnerships acquire their
16 lease interests solely from Weststar. Weststar, in turn,
17 acquires such lease interests primarily from Westar. Weststar
18 additionally collects some of the oil and gas revenue earned by
19 the Partnerships, and forwards those monies to the proper
20 Partnership.

21 30. Within Weststar, M. Seigel's primary responsibilities
22 are to review proposed property acquisitions and answer KS's and
23 Lazar sales agents' questions. Kahan, who is not an accountant
24 and has limited oil and gas experience, directs the preparation
25 of and reviews Weststar's and Westar's financial statements,
26 determines the lease interest prices charged to the Partnerships,
27 and reviews lease operating expenses. Even though Kahan is in
28 charge of Weststar's financial statements, KS staff reviews

1 Weststar's books for errors and performs bank reconciliations
2 every two to six months. Kahan and M. Seigel sign Weststar's
3 checks and jointly decide how funds the Partnerships deposit with
4 Weststar are expended.

5 (3) The Broker-Dealer - Lazar Frederick & Company

6 31. As the sole selling agent for the Partnerships, Lazar
7 identifies and contacts potential investors, distributes offering
8 memoranda and highlight brochures, conducts due diligence for the
9 Partnerships, and provides advice on Blue Sky laws to KS.

10 32. Lazar, for the 14 month period ending May 31, 1995,
11 received approximately 80% of its \$5,643,879.79 total income from
12 its activities relating to the sales of the Partnership
13 securities.

14 33. Rubin is primarily responsible for Lazar's compliance
15 issues, due diligence, hiring, training and personnel decisions.
16 Rubin, for Lazar, negotiated the 12% commission, 3% due diligence
17 fee, 3% marketing fee each Partnership pays to Lazar and the
18 self-identified "risk and exposure" fee KS pays to Lazar to sell
19 the Partnerships. In exchange for the due diligence fee each
20 Partnership pays, Rubin provides input as to the types of
21 properties purchased, reviews KS's books and records, some
22 incoming oil and gas revenue checks, and occasionally the
23 Partnerships' financial statements.

24 (4) The Partnerships

25 34. The offering documents for the Partnerships are
26 substantially the same, differing only in the properties to be
27 purchased, the dollar amount raised, and their offering periods.
28 The PPMs for each of the Partnerships state identical objectives,

1 i.e., to participate as a working interest owner in oil and gas
2 leases and to take and dispose of production from successful
3 Partnership wells. The PPMs further state the Partnership is
4 exempt from registration under the Securities Act.

5 '35. A highlight brochure accompanies each PPM. The
6 highlight brochure states the "annualized" returns paid on past
7 Partnership offerings, which range consistently from
8 approximately 10% to 12%. The highlight brochures also describe
9 the oil and gas industry generally, and give three sets of
10 projected returns, differing only as to the predicted prices of
11 oil per barrel or natural gas per cubic feet, leading investors
12 to believe that the returns to the partnerships will consist of
13 oil and gas revenue.

14 36. The PPMs state that all revenues, costs, expenses, and
15 current distributions are to be allocated 90% to the investors,
16 10% to KS until the investors recoup their cash invested, and
17 thereafter 80% to the investors and 20% to KS. According to the
18 PPMs, each Partnership has offered and sold limited partnership
19 interests in units of \$1,000 each, with a minimum offering of 100
20 units (\$100,000) and a maximum offering of between 650 and 1,750
21 units (\$650,000 to \$1,750,000).

22 37. The PPMs state that KS receives a 5% management fee to
23 compensate KS for its efforts in determining whether the assets
24 being acquired meet the economic criteria of the Partnerships.

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1 B. The Defendants Engage in A General Solicitation of
2 Investors, Misrepresenting And Omitting To State Material
3 Facts

4 38. Lazar has offered and sold interests in the
5 Partnerships consecutively, with a new offering starting
6 approximately every six weeks. To introduce each offering, Judd,
7 M. Seigel and Kahan give presentations to sales agents at Lazar
8 that discuss the proposed property acquisitions the PPMs
9 describe, the drilling and production process, the current prices
10 of oil and gas, and the return on the investment.

11 39. To motivate sales agents to sell the Partnerships,
12 Lazar requires sales agents to set sales goals and publishes
13 those goals to the sales force. Further, Lazar awards cash and
14 merchandise bonuses based upon volume of Partnership sales.

15 40. Lazar sales agents engage in a general solicitation of
16 investors by "cold-calling" prospects obtained from reverse
17 telephone directories and purchased lead cards. Many of the
18 investors are elderly, unsophisticated in financial matters, or
19 both.

20 41. Sales agents tell investors over the telephone that the
21 prior Partnerships have paid past returns of approximately 10% to
22 12% from oil and gas revenue earned on lease interests acquired
23 by the Partnerships.

24 42. The sales agents send and personally deliver to the
25 investors PPMs and highlight brochures which support such claims.
26 In fact, some Lazar sales agents give investors current oil and
27 natural gas price listings along with the Partnership offering
28 materials. Investors do not receive audited financials for KS,

1 Weststar or the Partnerships, nor do they receive supplementary
2 offering materials to correct the inaccurate disclosure.

3 43. When the sales pitch concludes, the sales agents ask
4 each investor to fill out and execute a client agreement and
5 subscription document and a check made out to a Partnership. The
6 sales agent forwards this material to Lazar's sales manager.

7 44. Lazar management reviews the materials, records the
8 information, and then takes the check, client agreement and
9 subscription document and delivers them to KS. KS uses the
10 client agreement and subscription document to create a "tracking
11 list" to monitor the number of accredited investors and deposits
12 the check into the Partnership's bank account.

13 45. When over \$100,000 has been deposited into the
14 Partnership's bank account, Judd disburses the funds in
15 accordance with the Estimated Use of Proceeds section in the
16 PPMs. The Estimated Use of Proceeds section represents that
17 investor monies will be allocated for the purchase of U.S.
18 Government obligations (about 22%), Lazar's fees (18% total),
19 working capital (about 2%) and lease related expenses including
20 the acquisition of oil and gas leases (about 51%), and operating
21 expenses (about 7%).

22 C. The Misuse and Misappropriation of Investor Monies To Pay
23 Defendants And Their Related Entities

24 (1) Payments By Weststar

25 46. KS, for the Partnership, transfers money from the
26 Partnership operating account to Weststar to purchase oil and gas
27 lease interests for the Partnership. Weststar deposits these
28 funds into Weststar's "operating account," where the funds are

1 commingled with other investor funds, some of the Partnerships'
2 oil and gas revenues, and other funds. For the period April 1,
3 1994 to October 31, 1995, the funds deposited by the 19 latest
4 partnerships represent approximately 84% of Weststar's cash
5 receipts.

6 47. Contrary to the representations contained in the PPM
7 relating to the use of proceeds, the Defendants KS, Weststar,
8 Judd, M. Seigel and Kahan misuse and misappropriate a significant
9 portion of the lease acquisition funds. These Defendants pay a
10 significant amount to themselves and make loans to M. Seigel and
11 some of the relief defendants.

12 48. Checks deposited into Weststar's operating account
13 during the period April 1, 1994 to October 31, 1995 totalled
14 about \$15,798,913. Of that total, about \$13,358,419 in deposits,
15 or 84%, came directly from the Partnerships. Another about
16 \$910,856, or 6%, came from oil and gas revenue, which Weststar
17 forwarded to the Partnerships for distribution. The remaining
18 monies deposited into Weststar's account, about \$1,529,638, were
19 deposited by either KS (\$556,749) or Weststar (from its money
20 market account), or by Judd, M. Seigel, and Kahan or entities for
21 which they have signatory authority (totalling \$972,889). From
22 April 1, 1994 to October 31, 1995, of the about \$13,358,419 of
23 investor funds that Weststar received for the acquisition of oil
24 and gas lease interests, at least \$6,034,483.35 were misused and
25 misappropriated by Defendants KS, Weststar, Judd, M. Seigel, and
26 Kahan.

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1 49. Rather than use all the money the Partnerships
2 allocated to purchase lease interests, Weststar used lease
3 acquisition monies:

4 (a) to pay KS \$2,649,500 (through April 1995) in
5 undisclosed Consulting and Due Diligence Fees as Weststar's cost
6 of doing business with KS. This amount is over and above the 5%
7 management fee paid by each Partnership;

8 (b) to pay the Partnerships \$1,423,621.35 in so-called
9 "interest," used to increase monthly returns to investors;

10 (c) to pay Pathfinder \$584,500 for Consulting, Commissions
11 and Due Diligence;

12 (d) to pay AKE \$568,500 for Consulting, Commissions and Due
13 Diligence;

14 (e) to pay Mid-West \$40,000 for Due Diligence;

15 (f) to pay J. Seigel \$279,500 for Consulting, Commissions
16 and Due Diligence, however, J. Seigel performs no services for
17 Weststar;

18 (g) to "lend" Pathfinder and AKE \$200,000, \$100,000 of
19 which has not been repaid;

20 (h) to "lend" Guardian \$223,500; and

21 (i) to pay KS and \$210,000, as payment for Weststar's rent
22 and monthly administrative expenses.

23 50. Neither the "loans" to the related entities, nor the
24 payments to the Defendants or the relief defendants, are
25 disclosed in the PPMs.

26 51. Additional fees were paid to KS after April 30, 1995
27 which total \$1,385,000. However, both the source of these fees
28 (investor funds) and the purpose for which the fees were paid

(Weststar's cost of doing business with KS) were inadequately disclosed and the PPMs were therefore misleading.

(2) Payments By KS

52. Undisclosed to investors prior to April 1995, KS paid the following sums between April 1, 1994 and October 31, 1995:

(a) \$80,018.59 for lease expense, auto detailing and insurance for three Mercedes-Benz automobiles, driven by Judd, M. Seigel, and Kahan;

(b) \$466,300 to Judd and Mid-West and as "consulting, due diligence, and professional fees;" of which \$194,250 was paid to Mid-West and \$272,050 was paid to Judd;

(c) \$84,000 to Judd in "salary;"

(d) \$55,400 to M. Seigel in "salary;" and

(e) \$11,900 to Kahan in "salary."

53. Prior to April 25, 1995, KS did not disclose that it paid Lazar's rent of approximately \$197,068.29 for the period April 1, 1994 to April 30, 1995. Further, KS never disclosed to investors the purpose for which KS paid Lazar \$1,460,000 as a "risk and exposure" fee for the period April 1, 1994 through October 31, 1995, namely, to compensate Lazar for the costs associated with NASD and Commission investigations of the Partnership offerings.

D. Misrepresentations Relating To Return On Investment

54. Investors are told, prior to purchasing the Partnership interests, that the return on investment will come from the Partnerships' oil and gas revenue. For the period April 1, 1994 through October 31, 1995, the revenue from the few oil and gas leases purchased for the 19 latest Partnerships generated only

1 approximately \$626,725.93 (42%) of the approximately \$1,479,678
2 distributed to investors.

3 55. To supplement the inadequate oil and gas revenue, for
4 the Partnerships, Weststar has used investor monies, which
5 Weststar and KS characterize as "interest," to fully fund the
6 monthly distributions. Plaintiff is informed and believes, and
7 on that basis alleges, that the funds used for this purpose are
8 diverted from the monies transferred to Weststar for the purchase
9 of lease interests.

10 56. Investors were not told that any portion of the monthly
11 distributions came from other investor funds.

12 57. These "interest" payments are continuing to be paid for
13 all of the 19 latest Partnerships. For example, investors in
14 MEIF IV and SPEF XI received over 99% of their distributions from
15 funds characterized as "interest" payments even though these two
16 Partnerships were first offered on September 23, 1994 and October
17 12, 1994 respectively.

18 E. Misrepresentations Relating to Weststar's Profit on Sale of
19 Lease Interests

20 58. The PPMs distributed before April 1995 disclosed that
21 Weststar would receive a profit on the sale of lease interests to
22 the Partnerships, which would be within "standard industry
23 guidelines" and that a fair market value price would be confirmed
24 by an independent appraisal report. The PPMs distributed after
25 April 30, 1995 represented that Weststar would receive between
26 10% and 35% profit on the sale of the lease interests, but did
27 not state that the fairness of lease interest prices would be
28 confirmed by independent appraisal reports.

1 59. To determine Weststar's profit on the sale of lease
2 interests to the Partnerships, Weststar's general ledger should
3 reflect the difference between the price Weststar paid for the
4 lease interests and the price the Partnerships paid for the lease
5 interests. The entries in Weststar's general ledger that show
6 the price Weststar paid for the lease interests and the price the
7 Partnerships paid for the lease interests are inconsistent with
8 other records of Westar and the Partnerships concerning these
9 transactions. Plaintiff is informed and believes and on the
10 basis of such information and belief alleges that Weststar
11 received a profit in excess of 10% to 35%.

12 60. To make a second, undisclosed profit on the sale of
13 lease interests, Weststar uses Westar as a middleman. Westar
14 finds oil and gas lease interests, purchases them, and sells them
15 to Weststar at a profit. Weststar, in turn, sells the interests
16 to the Partnerships for a second profit. The PPMs disclose the
17 existence and function of either Westar or Weststar, but not both
18 entities. There is no legitimate business reason for both
19 Weststar and Westar to participate in and profit on the purchase
20 and sale of lease interests. Weststar and Westar have the same
21 officers and shareholders, and use the same personnel.

22 61. For the period April 1, 1994 to April 30, 1995, Westar
23 expended a total of approximately \$1,592,233.26 for the
24 acquisition of lease interests and the costs associated with the
25 acquisition. During this period, 13 Partnerships offered during
26 this time period paid a total of \$4,852,370 for oil and gas lease
27 interests from Weststar. During the same period, Weststar also
28 purchased lease interests from two third-parties, at a cost of

1 \$253,518. Calculating the profit by taking Westar's purchase
2 price plus the cost of the two outside purchases, Weststar and/or
3 Westar profited on the sale of lease interests to the
4 Partnerships in the amount of \$3,006,618.74, or 163%.

5 **F. Misrepresentations Regarding Independent Appraisal Reports**

6 62. Until November 1994, all PPMs represented that the
7 fairness of the prices paid for the lease interests would be
8 confirmed by an independent appraisal report. However,
9 independent appraisal reports were not in fact created until
10 August 3, 1995. These reports were not reviewed by Kahan, M.
11 Seigel or A. Seigel. The appraisal reports each contain a
12 disclaimer that says they cannot be used to establish a
13 property's fair market value. Further, Judd never independently
14 verified whether the Partnerships paid a fair market price for
15 the lease interests.

16 **G. Falsified Investor Account Forms to Contravene Registration**
17 **Requirements**

18 63. As part of its duties in selling the Partnerships,
19 Lazar records of the number of investors who do not have an
20 annual income of over \$200,000 (or \$300,000 with their spouse), a
21 net worth of over \$1,000,000, or a trust with assets in excess of
22 \$5,000,000, ("non-accredited" investors).

23 64. To keep track of the non-accredited and accredited
24 investors, Lazar requires each investor to complete and sign a
25 client agreement and a subscription agreement. Some of the
26 client agreements and subscription agreements have been altered
27 by Lazar, to misstate the investor's financial position,
28 including, in at least two instances, the addition of a "0" at

1 the end of a non-accredited investor's stated net worth and the
2 addition of a "1," in front of a non-accredited investors' stated
3 net worth to increase the investor's purported net worth.

4 Lazar's summary of these client agreements and subscription
5 agreements for these same "non-accredited" investors list them as
6 accredited.

7 G. Current Status And Ongoing Offering

8 65. Defendants KS, Lazar, Judd, M. Seigel, Kahan and Rubin
9 began a partnership offering in September, 1995 called Epic Fund
10 VI ("Epic VI"). In that offering, KS, as the general partner, is
11 attempting to raise \$1.4 million from investors; to date, about
12 \$566,000 has been raised. Investors are told that about 51% of
13 their investment will be used to purchase oil and gas lease
14 interests.

15 66. Prospective investors are provided with a PPM and a
16 highlight brochure as described in paragraphs 35 through 37. The
17 PPM fails to disclose the actual uses of the proceeds allocated
18 for lease acquisition as described in paragraphs 38-53.

19 67. Approximately \$166,400 of the funds raised from this
20 ongoing offering have been deposited in the same Weststar bank
21 account as in previous offerings. Weststar had a cash balance of
22 only \$25,915.20 as of November 28, 1995. To continue to make
23 "interest" payments, Weststar must raise additional monies. As
24 described above, Weststar's primary source of funds during the
25 period April 1, 1994 through October 31, 1995 were the deposits
26 for lease acquisitions made by the Partnerships.

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1 FIRST CAUSE OF ACTION

2 OFFER AND SALE OF UNREGISTERED SECURITIES

3 Violations of Sections 5(a) and 5(c) of the Securities Act

4 [15 U.S.C. §§ 77e(a) & 77e(c)]

5 (Against KS, Lazar, Judd, M. Seigel and Rubin)

6 68. The allegations contained in paragraphs 1 and 4-69 are
7 realleged and incorporated by reference.

8 69. Defendants KS, Lazar, Judd, M. Seigel and Rubin, and
9 each of them, from about May 1993 through the present, by
10 engaging in the conduct described in paragraphs 1 and 4-69 above,
11 directly or indirectly, through use of the means or instruments
12 of transportation or communication in interstate commerce or the
13 mails, offered to sell or sold securities in the form of
14 investment contracts described to investors as limited
15 partnership interests, or, directly or indirectly, carried or
16 caused such securities to be carried through the mails or in
17 interstate commerce, for the purpose of sale or delivery after
18 sale.

19 70. No registration statement has been filed with the
20 Commission or has been in effect with respect to these
21 securities.

22 71. By reason of the foregoing, defendants KS, Lazar, Judd,
23 M. Seigel and Rubin, and each of them, directly or indirectly,
24 violated, and unless enjoined will continue to violate Sections
25 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) &
26 77e(c)].

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1 SECOND CAUSE OF ACTION

2 FRAUD IN THE OFFER OR SALE OF SECURITIES

3 Violations of Section 17(a) of the Securities Act

4 [15 U.S.C. § 77q(a)]

5 (Against All Defendants)

6 72. Paragraphs 2 and 4-69 are realleged and incorporated
7 herein by reference.

8 73. Defendants KS, Weststar, Lazar, Judd, M. Seigel, Kahan
9 and Rubin and each of them, by engaging in the conduct described
10 in paragraphs 2 and 4-69 above, in the offer or sale of
11 securities, by the use of means or instruments of transportation
12 or communication in interstate commerce or of the mails, directly
13 or indirectly: (1) with scienter, employed devices, schemes or
14 artifices to defraud; (2) obtained money or property by means of
15 untrue statements of material fact or by omitting to state
16 material facts necessary in order to make the statements made, in
17 the light of the circumstances under which they were made, not
18 misleading; or (3) engaged in transactions, practices or courses
19 of business which operated or would operate as a fraud or deceit
20 upon the purchasers of such securities.

21 74. By reason of the foregoing, Defendants KS, Weststar,
22 Lazar, Judd, M. Seigel, Kahan and Rubin, and each of them,
23 violated, and unless restrained and enjoined will continue to
24 violate, Section 17(a) of the Securities Act [15 U.S.C. §
25 77q(a)].

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1 THIRD CAUSE OF ACTION

2 FRAUD IN CONNECTION WITH THE
3 PURCHASE OR SALE OF SECURITIES

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

7 (Against All Defendants)

8 75. Paragraphs 2 and 4-69 are realleged and incorporated
9 herein by reference.

10 76. Defendants KS, Weststar, Lazar, Judd, M. Seigel, Kahan
11 and Rubin, and each of them, by engaging in the conduct described
12 in paragraphs 1-69 above, directly or indirectly, in connection
13 with the purchase or sale of securities, by the use of means or
14 instrumentalities of interstate commerce, or of the mails, with
15 scienter: (1) employed devices, schemes or artifices to defraud;
16 (2) made untrue statements of material fact or omitted to state
17 material facts necessary in order to make the statements made, in
18 the light of the circumstances under which they were made, not
19 misleading; or (3) engaged in acts, practices or courses of
20 business which operated or would operate as a fraud or deceit
21 upon other persons.

22 77. By reason of the foregoing, Defendants KS, Weststar,
23 Lazar, Judd, M. Seigel, Kahan and Rubin, and each of them,
24 violated, and unless restrained and enjoined will continue to
25 violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)]
26 and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

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1 FOURTH CAUSE OF ACTION

2 Violations of Section 15(c) of the Exchange Act

3 [15 U.S.C. § 78o(c)] and Rule 15c1-2 promulgated thereunder [17

4 C.F.R. § 240.15c1-2]

5 (Against Defendants Lazar and Rubin)

6 78. The allegations contained in paragraphs 3-69 are
7 realleged and incorporated by reference.

8 79. From at least May, 1993 to the present, Defendants
9 Lazar, as a broker dealer, and Rubin, as a controlling person,
10 and each of them, by engaging in the conduct described in
11 paragraphs 3-69 above, directly or indirectly, made use of the
12 mails or means or instrumentalities of interstate commerce, to
13 effect transactions in, or to induce or attempt to induce the
14 purchase or sale of securities otherwise than on a national
15 securities exchange of which Lazar was a member, by means of
16 manipulative, deceptive or other fraudulent devices or
17 contrivances including but not limited to: (1) acts, practices
18 or courses of business which operated or would operate as a fraud
19 or deceit upon other persons, or (2) making untrue statements of
20 material fact or omissions to state material facts necessary in
21 order to make the statements made, in light of the circumstances
22 under which they were made, not misleading, which statements or
23 omissions were made with knowledge or reasonable grounds to
24 believe that they were untrue or misleading.

25 80. As a result of such conduct described in paragraphs 1-
26 69, Defendants Lazar and Rubin violated, and unless restrained
27 and enjoined will continue to violate, Section 15(c) of the

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1 Exchange Act [15 U.S.C. § 78o(c)] and Rule 15c1-2 thereunder [17
2 C.F.R. § 240.15c1-2].

3 PRAYER FOR RELIEF

4 WHEREFORE, the Commission respectfully requests that this
5 Court:

6 I.

7 Issue findings of fact and conclusions of law that the
8 Defendants committed the violations charged and alleged herein.

9 II.

10 Issue an Ex Parte Temporary Restraining Order and Orders of
11 Preliminary and Permanent Injunction, in forms consistent with
12 Rule 65(d) of the Federal Rules of Civil Procedure, restraining
13 and enjoining Defendants KS, Lazar, Judd, M. Seigel and Rubin and
14 their officers, agents, servants, employees and attorneys, and
15 those persons in active concert or participation with any of
16 them, who receive actual notice of the orders by personal service
17 or otherwise, and each of them, from engaging in the
18 transactions, acts, practices and courses of business described
19 herein, and from engaging in conduct of similar purport and
20 object, in violation of Sections 5(a) and 5(c) of the Securities
21 Act [15 U.S.C. §§ 77e(a), 77e(c)]

22 III.

23 Issue an Ex Parte Temporary Restraining Order and Orders of
24 Preliminary and Permanent Injunction, in forms consistent with
25 Rule 65(d) of the Federal Rules of Civil Procedure, restraining
26 and preliminarily and permanently enjoining Defendants KS,
27 Weststar, Judd, M. Seigel and Kahan, and their officers, agents,
28 servants, employees and attorneys, and those persons in active

1 concert or participation with any of them, who receive actual
2 notice of the orders by personal service or otherwise, and each
3 of them, from engaging in the transactions, acts, practices and
4 courses of business described herein, and from engaging in
5 conduct of similar purport and object, in violation of Sections
6 17(a) of the Securities Act [15 U.S.C. § 77q(a)] and Section
7 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5
8 promulgated thereunder [17 C.F.R. § 240.10b-5].

9 IV.

10 Issue an Ex Parte temporary restraining order in a form
11 consistent with Rule 65(d) of the Federal Rules of Civil
12 Procedure:

13 A. enjoining defendants KS, Weststar, Judd, M. Seigel,
14 Kahan, Guardian, Pathfinder, AKE, Mid-West, and/or J. Seigel and
15 their officers, agents, servants, employees, and attorneys, and
16 those persons in active concert or participation with any of
17 them, who receive actual notice of the orders by personal service
18 or otherwise, and each of them, from:

19 1. transferring, assigning, selling, hypothecating,
20 changing, wasting, dissipating, converting, concealing, or
21 otherwise disposing of, in any manner, any funds, assets, claims,
22 or other property or assets owned or controlled by, or in the
23 possession or custody of KS, Weststar, Judd, M. Seigel, Kahan,
24 Guardian, Pathfinder, AKE, Mid-West, and/or J. Seigel as of the
25 date of the order, except as otherwise ordered by this Court;

26 2. transferring, assigning, selling, hypothecating,
27 or otherwise disposing of any securities, including, but not
28 limited to, any notes, investment contracts, or other securities

1 of KS, Weststar, Judd, M. Seigel, Kahan, Guardian, Pathfinder,
2 AKE, Mid-West, and/or J. Seigel.

3 B. enjoining any financial or brokerage institution or
4 other person or entity located within the territorial
5 jurisdiction of the United States courts and holding any funds or
6 other assets in the name, for the benefit, or under the control
7 of KS, Weststar, Judd, M. Seigel, Kahan, Pathfinder, AKE, Mid-
8 West, and/or J. Seigel or any person or entity affiliated with
9 any of them to hold and retain within its control and prohibit
10 the withdrawal, removal, transfer or other disposal of any such
11 funds or other assets.

12 V.

13 Grant such other and further relief as this Court may
14 determine to be just, equitable and necessary, including, but not
15 limited to, the appointment of a receiver over Defendants KS and
16 Weststar, accountings, and disgorgement with prejudgment
17 interest.

VI.

18 Enter an Order directing Defendants KS, Weststar, Lazar,
19 Judd, M. Seigel, Kahan and Rubin to pay civil penalties pursuant
20 to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and
21 Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

22 VII.

23 Retain jurisdiction of this action in accordance with the
24 principles of equity and the Federal Rules of Civil Procedure in
25 order to implement and carry out the terms of all orders and
26 decrees that may be entered, or to entertain any suitable

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1 application or motion for additional relief within the
2 jurisdiction of this Court.

3
4 DATED: December 19th 1995

Marianne Wisner
Marianne Wisner
Attorney for Plaintiff
Securities and Exchange Commission