

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

SECURITIES AND EXCHANGE COMMISSION, :

Plaintiff, :

v. :

JACKIE GROSS, :
MORGAN SPAULDING, INC., :
TELVEST COMMUNICATIONS, LLC, and :
JOHN FLANDERS, :

Defendants. :

Civil Action No.

Plaintiff Securities and Exchange Commission (“SEC” or “Commission”) alleges:

SUMMARY

1. From approximately late 2001 through September 30, 2003, defendants Jackie Gross (“Gross”), Morgan Spaulding, Inc. (“Morgan Spaulding”) and Telvest Communications, LLC (“Telvest”), engaged in a deliberate scheme to defraud investors. Gross, Morgan Spaulding and Telvest facilitated the sale of nearly \$15 million in unregistered shares of U.S.-based companies to investors in the United Kingdom and other countries (the “Regulation S Offerings”) by, among other things, deceiving the investors into believing that nearly all the stock purchase price would be remitted to the companies issuing shares. In fact, only a small percent of the invested proceeds actually went to the companies. The rest was siphoned off to Telvest, Morgan Spaulding and Gross; overseas brokerage firms as undisclosed commissions; and other individuals, including defendant John Flanders, as “finder fees.”

2. Defendants Telvest and Flanders acted as unregistered broker-dealers in connection with the fraudulent Regulation S Offerings.

3. As a result of the conduct described herein, defendants Gross, Morgan Spaulding and Telvest violated Section 17(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. § 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 promulgated thereunder [17 C.F.R. § 240.10b-5], and defendants Telvest and Flanders violated Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)]. Gross also is liable for Telvest’s and Morgan Spaulding’s violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and for Telvest’s violation of Section 15(a) of the Exchange Act, as a control person under Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)].

4. The Commission seeks a judgment permanently enjoining Morgan Spaulding, Telvest, Gross, and Flanders from further securities law violations, and ordering them to disgorge all ill-gotten gains from the unlawful conduct alleged in this complaint, plus prejudgment interest, and to pay civil monetary penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. 78u(d)(3)].

JURISDICTION

5. The Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. 78aa].

6. The Commission brings this action pursuant to authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)] and Section 21(d)(1) of the Exchange Act [15 U.S.C. § 78u(d)(1)].

7. Defendants, directly or indirectly, singly and in concert, have made use of the means and instrumentalities of interstate commerce, or of the mails, or of the facilities of a national securities exchange in connection with the transactions, acts, practices, and courses of business alleged herein, certain of which occurred within the Northern District of Texas. Venue is proper in this Court pursuant to Section 22 of the Securities Act [15 U.S.C. § 77u(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78 aa].

8. Defendants, unless restrained and enjoined by this Court, will continue to engage in the transactions, acts, practices, and courses of business as set forth in this complaint or in similar illegal transactions, acts, practices, and courses of business.

DEFENDANTS

9. Jackie Gross, age 64, is a resident of Plano, Texas. During the relevant period, he was the president, chief executive officer and sole owner of Morgan Spaulding and the president and owner of Telvest (of which he owned 20 percent directly and 80 percent through a trust he controlled). Although Gross provided information about the Regulation S Offerings to SEC staff during an informal telephone interview, he

subsequently refused to testify during the Commission's investigation and asserted his Fifth Amendment privilege against self-incrimination.

10. During the relevant period, Morgan Spaulding was a Texas-based registered broker-dealer wholly owned by Gross.

11. Telvest Communications, LLC, is Gross's privately-held Texas limited liability company that performed services for issuers and overseas brokerage firms in connection with the Regulation S Offerings. Telvest used the name MSI Administrators in communications with investors. Telvest is not currently and never has been a registered broker-dealer.

12. John Flanders, age 36, is a resident of Glendale, Arizona. During the relevant period, he was a registered representative for Scottsdale Capital Advisors Corp., a registered broker-dealer based in Arizona. While employed by Scottsdale Capital Advisors, and without notifying Scottsdale Capital Advisors, Flanders participated with Gross and Telvest in the Regulation S Offerings.

BACKGROUND FACTS

Setting the Stage

13. In approximately late 2001, Gross, acting through Morgan Spaulding and Telvest, began participating in a scheme to sell unregistered Regulation S Offerings on behalf of twelve U.S.-based companies and one individual who owned shares in a thirteenth U.S. company. Flanders introduced Telvest to certain of those issuers.

14. Ten of the companies whose stock was sold in the Regulation S Offerings were public companies whose shares were traded on the over-the-counter markets; the

remaining three companies were private companies. At least one was a shell company, with no products, sales, or income.

15. A person ostensibly employed by Telvest but who was compensated from a Morgan Spaulding bank account worked full-time on the Regulation S Offerings, handling the paperwork and answering inquiries from investors and overseas brokerage firms.

16. The issuers entered into written agreements with Telvest and/or overseas brokerage firms to sell the Regulation S Offering shares. Gross signed certain of the agreements, styled as escrow agreements, on behalf of Telvest. Among other things, all the issuer agreements provided that Telvest or one of the overseas brokerage firms would receive fees, generally calculated as a percentage of sales, for arranging or selling the issuer shares. In fact, total fees to Telvest and the overseas brokerage firms added up to approximately 55 to 70 percent of the sales price of the securities. Telvest itself received approximately 7 to 12 percent of that price. Gross in turn paid “finder fees” from Telvest’s share to several individuals, including Flanders.

The Sales Effort

17. From approximately late 2001 through September 2003, salesmen from the overseas brokerage firms, located primarily in Spain or Australia, solicited prospective investors in the United Kingdom and other countries, and succeeded in selling securities valued at nearly \$15 million in thirteen U.S.-based issuers through the Regulation S Offerings.

18. The salesmen often falsely represented themselves to investors as representatives of branch offices of Morgan Spaulding. In fact, the website of J.P.

Madison, one of the overseas firms, claimed it was the European agent for Morgan Spaulding, and established a link to an official search page for listings of U.S. broker-dealers, which assured investors that Morgan Spaulding was registered as a broker-dealer with the National Association of Securities Dealers (“NASD”) and the SEC. One investor e-mailed Morgan Spaulding, attempting to confirm the information on the J.P. Madison website and learn the status of his investment. An employee replied using a Morgan Spaulding email address, assuring the investor that the shares were valid and would soon be transmitted to him.

19. In addition, an employee who ostensibly worked for Telvest and who worked full-time on the Regulation S Offerings received telephone calls from overseas investors who asked for Morgan Spaulding and, although that employee told Gross that the investors had asked for Morgan Spaulding, neither that employee nor Gross did anything to correct investors’ false impression that the overseas brokerage firms were affiliated with Morgan Spaulding.

The False Confirmations

20. After receiving notification of sales from one of the overseas brokerage firms, Telvest prepared and sent written confirmations to investors. Those confirmations contained material misrepresentations and omissions. Specifically, the confirmations prepared by Telvest failed to disclose the large commissions paid to the overseas brokers, the portion of the purchase price paid to Telvest and others, or the relatively small fraction of the price actually remitted to the issuers. Instead, the confirmations falsely informed investors only that either a one percent fee or a flat fee of \$50 had been paid to persons or entities other than the issuers.

21. In addition, the confirmations bore the name MSI Administrators, which could reasonably have been construed by investors to indicate that Morgan Spaulding, Inc., a registered broker-dealer, was associated with the offerings and handled the investor funds. Similarly, instructions on some of the confirmations directed investors to wire funds to an MSI Escrow Account, and one of the bank accounts to which investment proceeds were directed was in the names Morgan Spaulding, Inc., Telvest Communications, LLC, and MSI Administrators.

22. Gross knew or was reckless in not knowing that the confirmations Telvest prepared and sent to overseas investors contained material misrepresentations and omissions. He possessed and exercised the power to direct and control the management, policies and day-to-day operations of Telvest and Morgan Spaulding during the Regulation S Offerings, and closely supervised the employees who administered the effort. Not only did Gross sign the Telvest agreements that divided the proceeds of the Regulation S Offerings, but he directed wire transfers to the overseas brokerage firms and finders in amounts far in excess of the fees and commissions disclosed to investors in the confirmations.

Distribution of the Ill-Gotten Gains

23. Once Telvest received payment for the Regulation S shares, Gross or an employee of Telvest or Morgan Spaulding would write to the transfer agent or the issuer to request that the stock certificates be sent to Telvest for forwarding to investors. Gross then directed wire transfers from Telvest accounts to the overseas brokerage firms, finders, and issuers in accordance with the preexisting agreements.

24. In 2002 and 2003, Gross wired approximately \$8.6 million from Telvest accounts to overseas brokerage firms and finders. In those years, Gross himself withdrew approximately \$186,000 from Telvest accounts and transferred approximately \$387,000 from Telvest accounts to Morgan Spaulding bank accounts.

25. In 2002 and 2003, Flanders received a total of approximately \$200,000 in transaction-based fees from Telvest as payment for introducing issuers to Telvest.

The Unregistered Broker-Dealers

26. Although Telvest never registered as a broker-dealer, it was involved in nearly every aspect of the Regulation S Offerings. It received and processed investor purchase orders from the overseas brokers and sent confirmations and wiring instructions to investors. After receiving investor funds, Telvest instructed the transfer agent or the issuer to issue the stock certificates. Based on these instructions, the transfer agent would remit the shares to Telvest for forwarding to the investors. On at least one occasion, when two investors could not reach their overseas brokers, Telvest arranged for the investors to be reassigned to other brokers. Telvest also distributed investor funds, wiring funds to several entities or individuals involved in the process, including overseas brokers and John Flanders. For its services, Telvest received transaction-based compensation, determined as a percentage of the gross proceeds collected from investors.

27. Gross controlled the day-to-day operations of Telvest and made all significant decisions for the firm.

28. Flanders regularly participated in securities transactions at key points in the chain of distribution, by finding sellers of securities, introducing them to Telvest to enable its sale of shares to overseas investors, and accepting nearly \$200,000 in

transaction-based compensation. Meanwhile, Flanders kept his dealings with Telvest hidden from his employer, Scottsdale Capital Advisors, a registered broker-dealer. Flanders also served as liaison between Telvest and the issuers he had introduced, and on several occasions pressed issuers to speed up the delivery of stock certificates to investors.

FIRST CLAIM

(ANTIFRAUD VIOLATIONS)

(Violation of Section 17(a) of the Securities Act [15. U.S.C. § 77q(a)])

29. Paragraphs 1 through 28 are hereby realleged and incorporated by reference.

30. Gross, Morgan Spaulding and Telvest, by engaging in conduct described in Paragraphs 1 through 28 above, directly or indirectly, violated, and unless restrained and enjoined by this Court, will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

SECOND CLAIM

(Violation 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])

31. Paragraphs 1 through 28 are hereby realleged and incorporated by reference.

32. Gross, Morgan Spaulding and Telvest, by engaging in the conduct described in Paragraphs 1 through 28 above, directly or indirectly, violated, and unless restrained and enjoined by this Court, 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].

THIRD CLAIM

BROKER-DEALER REGISTRATION VIOLATIONS

(Violation of Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)])

33. Paragraphs 1 through 28 are hereby realleged and incorporated by reference.

34. Telvest and Flanders, by engaging in the conduct described in Paragraphs 1 through 28 above, violated, and unless restrained and enjoined by this Court, will continue to violate, Section 15(a) of the Exchange Act [15 U.S.C. 78o(a)].

FOURTH CLAIM

CONTROL PERSON LIABILITY

(Violation of Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)])

35. Paragraphs 1 through 28 are hereby realleged and incorporated by reference.

36. Defendant Gross, directly or indirectly, had the power to direct and control, and did direct and control the conduct of Morgan Spaulding and Telvest described herein. Gross was, therefore, a controlling person of Morgan Spaulding and Telvest pursuant to Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)].

37. By reason of the foregoing, Gross is liable as a controlling person pursuant to Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)] for Telvest's and Morgan Spaulding's 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], and for Telvest's violation of Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)], and unless restrained and enjoined by this Court, will continue to violate these provisions.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court:

I.

Permanently enjoin defendants Gross, Morgan Spaulding and Telvest, their officers, agents, servants, employees, attorneys, and those persons in active concert or participation with them who receive actual notice by personal service or otherwise, from violating, directly or indirectly, Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)] and 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].

II.

Permanently enjoin defendants Telvest and Flanders, their officers, agents, servants, employees, attorneys, and those persons in active concert or participation with them who receive actual notice by personal service or otherwise, from violating, directly or indirectly, Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)].

III.

Order that defendants Gross, Morgan Spaulding, Telvest, and Flanders disgorge all ill-gotten gains, including pre-judgment interest, resulting from their participation in the alleged conduct.

IV.

Order defendants Gross, Morgan Spaulding, Telvest, and Flanders to pay civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)] in an amount to be determined by the Court.

V.

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

Dated:

Respectfully Submitted,

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