

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

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| SECURITIES AND EXCHANGE COMMISSION, | : | |
| | : | |
| Plaintiff, | : | |
| vs. | : | |
| | : | |
| RODNEY E. WALLACE, JOE B. DORMAN and JOHN A. BLANK, | : | Civil Action No. 3:10-cv-440 |
| | : | |
| Defendants. | : | |

COMPLAINT

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

JURISDICTION AND VENUE

1. This Court has jurisdiction over this action pursuant to Section 27 of the Securities Exchange Act of 1934 (the “Exchange Act”) [15 U.S.C. § 78aa]. Defendants have, directly and indirectly, made use of the means or instrumentalities of interstate commerce and/or the mails in connection with the transactions described in this Complaint.

2. Venue lies in this Court pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa], because certain of the acts and transactions described herein took place in the Northern District of Texas.

DEFENDANTS

3. Rodney E. Wallace is an individual residing in Texas. He was employed as the Director of Operations for North American Technologies Group, Inc. (“NATG” or

the “company”) from January 2007 until he became NATG’s Chief Executive Officer (“CEO”) in March 2008. NATG fired Wallace on February 26, 2009. Wallace’s last known address of 1365 S. Hubbard St., Alvord, Texas 76225-7330.

4. Joe B. Dorman is an individual residing in Texas. He has been NATG’s general counsel since 2005 and served as NATG’s acting CFO from January 2008 to February 2009. Dorman may be served with process in this matter through his attorney, Edwin J. Tomko, 2001 Bryan St., Suite 2050, Dallas, Texas 75201.

5. John A. Blank is an individual residing in Louisiana. He was NATG’s corporate controller from December 2006 until December 2008, when he ended his employment with NATG. Blank may be served with process in this matter through his attorney, William H. Ledbetter, Esq., 2285 Benton Road, Suite D-101, Bossier City, Louisiana 71111.

RELEVANT ENTITY

6. NATG is a Delaware corporation with its manufacturing facility in Marshall, Texas, and its corporate office in Dallas, Texas. During the periods relevant to this action, NATG manufactured and marketed engineered composite railroad crossties, and its common stock was registered with the Commission under Section 12(g) of the Exchange Act [15 U.S.C. §78l(g)]. During the periods relevant to this case, NATG was required to file reports with the Commission pursuant to Section 13(a) of the Exchange Act [15 U.S.C. §78m(a)].

FACTS

Summary

7. Between April 2008 and November 2008, Wallace misappropriated over \$538,000 from NATG, mostly through reimbursements for fictitious purchases of raw materials he claimed to have made on NATG's behalf. Dorman and Blank authorized Wallace's requests and recorded his purported purchases on NATG's books without obtaining appropriate supporting documentation.

8. Wallace's transactions were not disclosed to investors until months later, after NATG's auditor discovered them. During that period, Wallace falsely certified NATG's quarterly report on Form 10-QSB, filed with the SEC on August 13, 2008. Wallace also knowingly provided NATG's auditors with phony documents in an attempt to substantiate his purported purchases.

Wallace Misappropriates Funds Intended for Canadian Employee

9. In April 2008, Wallace told Dorman and Blank that he personally had paid a Canadian NATG employee because the employee's bank refused to deposit the employee's NATG check. Based solely upon Wallace's unsubstantiated claim, Dorman and Blank wired \$48,819 to Wallace's personal bank account to reimburse him for the purported payment. Wallace, in fact, had not paid the Canadian employee and otherwise had no right or claim to these funds.

Wallace Reimbursed for Fraudulent Raw Materials Purchases

10. In mid-2008, Wallace told Dorman and Blank that NATG could lower its production costs if he purchased raw materials on the "spot" market, using personal funds, presumably allowing him to act quickly to secure the best prices. Wallace made

his first reimbursement request on June 27, 2008, when he requested reimbursement for a purported \$39,000 materials purchase. The same day, without supporting documentation from Wallace, Dorman and Blank issued an NATG check in this amount, \$39,000, payable to “Classic.” In fact, Wallace used this check to make a payment on his personal automobile. Wallace thus knew that his reimbursement request was fraudulent.

11. On at least 16 occasions thereafter, between July 7, 2008 and November 20, 2008, Wallace told Dorman and Blank that he had purchased raw materials on NATG’s behalf, and requested reimbursement. He also occasionally provided them with falsified “supporting” documents. Based solely on Wallace’s oral requests and flimsy and infrequent documentation, Dorman and Blank jointly approved wire transfers to Wallace totaling \$450,617.40, presumably to reimburse Wallace for the raw materials purchases. The wire transfers to Wallace are set forth in the following table:

| Date | Amount | Date | Amount |
|-------------|---------------|-------------|---------------|
| 7/7/2008 | \$89,000 | 9/4/2008 | \$17,300 |
| 7/18/2008 | \$36,332.17 | 9/17/2008 | \$18,700 |
| 7/21/2008 | \$42,000 | 9/26/2008 | \$42,500 |
| 7/30/2008 | \$42,500 | 10/14/2008 | \$27,200 |
| 8/1/2008 | \$17,315.10 | 10/23/2008 | \$16,500 |
| 8/13/2008 | \$21,650 | 11/12/2008 | \$7,820.13 |
| 8/21/2008 | \$8,100 | 11/14/2008 | \$8,700 |
| 8/28/2008 | \$27,600 | 11/20/2008 | \$27,400 |

Wallace did not in fact purchase raw materials and thus knew that his reimbursement requests were false. He otherwise had no right or claim to these funds.

12. Dorman and Blank recorded Wallace's alleged purchases in NATG's books and financial records as "Prepaid Other and Inventory." This was inaccurate because, as Wallace knew, the funds were not used to acquire assets for NATG. Instead, Wallace used them for personal purposes. Wallace knew that Dorman and Blank would rely on his representations to make entries in NATG's accounting records.

13. As NATG's CEO, Wallace was responsible for, among other things, ensuring that NATG devised and maintained an appropriate system of internal accounting controls. He was also responsible for ensuring that NATG made and kept books, records and accounts that, in reasonable detail, accurately and fairly reflected NATG's transactions and disposition of assets. Dorman and Blank, as NATG's CFO and controller, respectively, also were responsible for these items.

NATG's Form 10-QSB Fails to Disclose Wallace's Related Party Transactions

14. On August 13, 2008, NATG filed with the Commission its report on Form 10-QSB, for the third fiscal quarter ended June 29, 2008 (the "Third Quarter 2008 Form 10-QSB"). Wallace and Dorman signed this filing in their capacities as CEO and CFO, respectively.

15. Note 10 to the financial statements in the Third Quarter 2008 Form 10-QSB purports to disclose NATG's related party transactions during the quarter. Under generally accepted accounting principles ("GAAP"), an issuer's financial statements "shall include disclosures of material related party transactions" and the financial statements are not complete and reliable without disclosure of this information. *See* Financial Accounting Standards Board Statement No. 57 ("FAS 57"), *Related Party Disclosures*, ¶¶ 2, 16. Instruction 2(2)(i) of Item 310(b) of Regulation S-B further

dictates that “[f]ootnote and other disclosures should be provided as needed for fair presentation and to ensure that the financial statements are not misleading.” *See* 17 C.F.R. § 228.310(b). Accordingly, Note 10 should have disclosed that Wallace had improperly caused NATG to pay him \$87,819 during the quarter, i.e., the sum of what Wallace received as “reimbursement” for purportedly paying the Canadian employee and for his ostensible June 27, 2008 materials purchase. This note, however, did not disclose these transactions.

16. Wallace, as CEO, certified the Third Quarter 2008 Form 10-QSB, asserting that he had reviewed the filing and that it did not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading. He also certified that there had been no fraud, whether or not material, that involved management or other employees with a significant role in NATG’s internal accounting controls. He certified other representations about NATG’s internal accounting controls as well.

17. NATG’s external auditor reviewed NATG’s financial statements for the third fiscal quarter of 2008, which were included in the Third Quarter 2008 Form 10-QSB. In connection with this review, Wallace signed a management representation letter to the external auditor, in which he represented that, among other things, there had been no fraud involving management during the quarter and that all related party transactions had been disclosed.

18. Wallace’s certification and representation letter were false. As he knew when he signed these documents, he had misappropriated more than \$87,000 from NATG

through false pretenses during the quarter, and these transactions were not disclosed in the Third Quarter 2008 Form 10-QSB. Investors were thus not alerted to Wallace's deception, or the company's transactions with him, which is material information that a reasonable investor would expect to receive.

Wallace's Scheme is Discovered, but he Continues his Deception

19. While conducting its annual audit of NATG's fiscal 2008 financial statements, NATG's external auditor began questioning the reimbursements to Wallace. In response to the auditor's request for supporting documentation for the reimbursements, Wallace provided fictitious invoices he had fabricated (or caused to be fabricated), as well as forged banking records that, according to Wallace, reflected the payments for which he was being reimbursed. The auditor did not deem credible the fictitious invoices or banking records.

FIRST CLAIM
Violations of Section 10(b) of the Exchange Act and Rule 10b-5
[against Defendant Wallace]

20. Paragraphs 1 through 19 are re-alleged and incorporated by reference.

21. Wallace, directly or indirectly, in connection with the purchase or sale of securities, by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, has: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices and courses of business which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons.

22. In the purchase and sale of securities and as part of and in furtherance of his scheme to defraud, Wallace, directly and indirectly, made false and misleading statements of material fact, and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, including but not limited to signing and certifying the Third Quarter Form 10-QSB that failed to disclose NATG's related party transactions with him during the quarter.

23. Wallace engaged in the conduct described in this claim knowingly or with severe recklessness regarding the truth.

24. By reason of the foregoing, Wallace has violated and, unless enjoined, will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. §§ 78j(b)] and Rule 10b-5 [17 C.F.R. §§ 240.10b-5].

SECOND CLAIM

**Violations of Section 13(b)(5) of the Exchange Act and Rule 13b2-1
[against Defendant Wallace]**

25. Paragraphs 1 through 19 are re-alleged and incorporated by reference.

26. Wallace knowingly circumvented NATG's system of internal accounting controls and/or knowingly falsified NATG's books and records required to be kept under Section 13 of the Exchange Act.

27. By reason of the foregoing, Wallace violated, and unless enjoined, will continue to violate Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] and Rules 13b2-1 [17 C.F.R. §§ 240.13b2-1].

THIRD CLAIM
Violations of Rule 13a-14 of the Exchange Act
[against Defendant Wallace]

28. Paragraphs 1 through 19 are re-alleged and incorporated by reference.

29. Wallace, in the manner set forth above, violated Rule 13a-14 of the Exchange Act by, directly or indirectly:

(a) certifying a periodic report containing financial statements filed by an issuer pursuant to Section 13(a) of the Exchange Act when he failed to:

(1) review the report;

(2) ensure, to the best of his knowledge, that the report did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;

(3) ensure, to the best of his knowledge, that the financial statements, and other financial information included in the report, fairly presented in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in the report;

(4) ensure that he had established and maintained disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), for the issuer and had: (i) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under his supervision, to ensure that material information

relating to the issuer, including its consolidated subsidiaries, was made known to him by others within those entities, particularly during periods in which the periodic report is being prepared; (ii) evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report his conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the report based on such evaluation; and (iii) disclosed in the report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter (the issuer's fourth quarter in the case of an annual report) that had materially affected, or was reasonably likely to materially affect, the issuer's internal control over financial reporting; and

(5) ensure that he disclosed, based on his most recent evaluation of internal controls over financial reporting, to the issuer's board of directors (or persons performing the equivalent functions): (i) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which were reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and (ii) any fraud, whether or not material, that involves management or other employees who had a significant role in the issuer's internal controls over financial reporting; and

(b) having a certification of disclosure, as specified in Exchange Act Rule 13a-14(a), (b) or (c), signed on his behalf pursuant to a power of attorney or other form of confirming authority.

30. By reason of the foregoing, Wallace has violated and, unless enjoined, will continue to violate, Exchange Act Rule 13a-14 [17 C.F.R. § 240.13a-14].

FOURTH CLAIM
Violations of Rule 13b2-2 of the Exchange Act
[against Defendant Wallace]

31. Paragraphs 1 through 19 are re-alleged and incorporated by reference.

32. Wallace violated Rule 13b2-2 of the Exchange Act by, directly or indirectly:

(a) making or causing to be made a materially false or misleading statement to an accountant in connection with; or

(b) omitting to state, or causing another person to omit to state, any material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading, to an accountant in connection with:

(1) any audit, review or examination of the financial statements of an issuer; or

(2) the preparation or filing of any document or report required to be filed with the Commission.

33. By reason of the foregoing, Wallace has violated and, unless enjoined, will continue to violate, Exchange Act Rule 13b2-2 [17 C.F.R. § 240.13b2-2].

FIFTH CLAIM
Aiding and Abetting NATG's Violations of
Section 13(a) of the Exchange Act and Rules 12b-20 and 13a-13
[against Defendant Wallace]

34. Paragraphs 1 through 19 are re-alleged and incorporated by reference.

35. Based on the conduct alleged herein, NATG violated Section 13(a) of the Exchange Act and Rules 12b-20 and 13a-13 thereunder.

36. Wallace, in the manner set forth above, knowingly provided assistance to NATG, as an issuer of securities pursuant to Section 12 of the Exchange Act, in its failing to file with the Commission, in accordance with the rules and regulations the Commission has prescribed, information and documents required by the Commission to keep reasonably current the information and documents required to be included in or filed with an application or registration statement filed pursuant to Section 12 of the Exchange Act and quarterly reports as the Commission has prescribed.

37. By reason of the foregoing, Wallace aided and abetted NATG's violations of, and unless enjoined, will aid and abet further violations of, Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20 and 13a-13 [17 C.F.R. §§ 240.12b-20 and 240.13a-13].

SIXTH CLAIM
Aiding and Abetting NATG's Violations of Exchange Act
Sections 13(b)(2)(A) and 13(b)(2)(B)
[against Defendants Wallace, Dorman and Blank]

38. Paragraphs 1 through 19 are re-alleged and incorporated by reference.

39. Based on the conduct alleged herein, NATG violated Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

40. Defendants Wallace, Dorman and Blank, together and singly, in the manner set forth above, knowingly or with severe recklessness, provided substantial assistance to NATG in connection with its failure to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected NATG's transactions and dispositions of its assets.

41. Defendants Wallace, Dorman and Blank, together and singly, in the manner set forth above, knowingly or with severe recklessness, provided substantial assistance to NATG in connection with its failure to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:

(1) transactions were recorded as necessary:

(a) to permit preparation of financial statements in conformity with GAAP or any other criteria applicable to such statements; and

(b) to maintain accountability for assets;

(2) access to assets was permitted only in accordance with management's general or specific authorization; and

(3) the recorded accountability for assets was compared with the existing assets at reasonable intervals and appropriate action was taken with respect to any differences.

42. By reason of the foregoing, Defendants Wallace, Dorman and Blank aided and abetted NATG's violations of, and unless enjoined, will aid and abet further violations of Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B) [15 U.S.C. § 78m(b)(2)(A)].

RELIEF REQUESTED

For these reasons, the Commission respectfully requests that the Court enter a judgment:

(a) permanently enjoining Wallace from violating Sections 10(b) and 13(b)(5) of the Exchange Act and Rules 10b-5, 13a-14, 13b2-1 and 13b2-2 thereunder, and from

aiding and abetting violations of Exchange Act Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) and Rules 12b-20 and 13a-13 thereunder;

(b) permanently enjoining Dorman from aiding and abetting violations of Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B);

(c) permanently enjoining Blank from aiding and abetting violations of Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B);

(d) ordering Wallace to pay a civil penalty under Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)];

(e) ordering Dorman to pay a civil penalty of \$15,000;

(f) ordering Wallace to disgorge his ill-gotten gains from his misconduct, plus prejudgment interest on those amounts;

(g) prohibiting Wallace under Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)] from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] or that is required to file reports pursuant to Section 15(d) of the Exchange Act [15 U.S.C. § 78o(d)];

(h) granting such further relief as this Court may deem just and proper.

Dated: March 3, 2010

Respectfully submitted,

/s/ Jeffrey A. Cohen

Jeffrey A. Cohen

Florida Bar No. 606601

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