

ORIGINAL

UNITED STATES DISTRICT COURT
DISTRICT OF SOUTH CAROLINA
CHARLESTON DIVISION

DEC 14 2004

LARRY W. PROPES, CLERK
CHARLESTON, SC

SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

v.

PAUL V. DEGENHART , UNIVERSITY CLUB
GROUP, INC. and UC PROPERTIES, LLC,

Defendants.

CIVIL ACTION FILE

NO. 2 04-23267-18

Complaint For Injunctive And Other Relief

The plaintiff, Securities and Exchange Commission ("Commission" or the "Plaintiff"), files this complaint and alleges the following:

Summary

1. This matter involves a Ponzi scheme operated by defendants Paul V. Degenhart ("Degenhart"), University Club Group, Inc. ("UC Group") and UC Properties, LLC ("UC Properties") (collectively "the Defendants"), through a series of securities offerings they made with the assistance of Southern Financial Group, Inc. ("Southern"), a broker-dealer formerly operating in Columbia and Charleston, South Carolina. A receiver has been appointed for Southern in a related action.

2. From November 1998 through May 2002, UC Properties and UC Group, at Degenhart's direction, made between them a series of twenty-one offerings of notes, with a total of

approximately \$100 million face value. Since many of the earlier investments were rolled over, the actual amount raised appears to be approximately \$29.8 million

3. The defendants knew, or were severely reckless in not knowing, that the information presented to investors in connection with these offerings failed to disclose material facts concerning the value of the collateral securing the obligations and that the offering materials presented to investors falsely represented, among other things, the interest rates and amounts of UC Group and UC Properties outstanding obligations.

4. The defendants also knew, or were severely reckless in not knowing, but failed to disclose to investors, that the note offerings operated as a Ponzi scheme, because funds from new investors were required to pay the returns promised to earlier investors.

5. The Commission brings this action to enjoin defendants Degenhart, UC Group and UC Properties from violations of the federal securities laws, for disgorgement of Degenhart's ill-gotten gains and for civil penalties and other relief against Degenhart.

6. By virtue of their conduct, defendants Degenhart, UC Group and UC Properties have engaged and, unless enjoined, will continue to engage, in violations of 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 [17 C.F.R. 240.10b-5] thereunder.

Jurisdiction and Venue

7. The Commission brings this action pursuant to Sections 20(b), (c) and (d) of the Securities Act [15 U.S.C. 77t(b)-(d)] and Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. 78u(d)-(e)], to enjoin the Defendants from engaging in the transactions, acts, practices and

courses of business alleged in this Complaint, and transactions, acts, practices and courses of business of similar purport and object, and, against Degenhart, for disgorgement of ill-gotten gains, civil penalties and other relief.

8. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d) and 22(a) of the Securities Act [15 U.S.C. 77t(b), 77t(d) and 77v(a)] and Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. 78u(d), 78u(e) and 78aa].

9. The Defendants, directly and indirectly, have made use of the mails, the means and instrumentalities of transportation and communication in interstate commerce, and the means and instruments of interstate commerce, in connection with the transactions, acts, practices, and courses of business alleged in this Complaint.

10. Venue lies in this Court 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], because certain of the transactions, acts, practices and courses of business constituting violations of the Securities Act and Exchange Act have occurred within the District of South Carolina and the defendants reside or have offices in South Carolina.

Defendants

11. **Paul V. Degenhart**, age 54, resides in Columbia, South Carolina. Degenhart is an attorney. He is an owner and the controlling person of UC Group and UC Properties.

12. **University Club Group, Inc.** is a Delaware corporation formed in 1998 with its principal place of business in Columbia, SC. UC Group was the joint venture partner with another entity in University Clubs of America LLC, an entity that owns and manages golf courses affiliated with the Universities of South Carolina (“Gamecock Club”), Alabama (“Capstone

Club”), Kentucky (“Wildcat Club”) and Louisville (“Cardinal Club”). UC Group is affiliated with UC Properties through common ownership.

13. **UC Properties LLC** is a South Carolina limited liability company with its office in Columbia, South Carolina that was formed to develop and sell commercial and residential real estate adjacent to the University Club golf courses.

Degenhart and the University Club Entities

14. The University Club concept was developed by a Columbia, South Carolina businessman in the early 1990’s. The initial concept was to develop a golf course affiliated with the University of South Carolina that would be the home course for the school’s golf team. The plan was to sell memberships to athletic boosters, school alumni and faculty to provide an ‘opportunity to interact on an athletic and social basis.’

15. The initial club was established in a suburb of Columbia and operates a 27-hole golf course, swimming, tennis and fitness facilities.

16. As the University of South Carolina club became successful, Degenhart and three real estate developers acquired control of the company and expanded the business to universities in Alabama and Kentucky.

17. Degenhart and his partners also extended the concept to include the development of residential and commercial properties adjacent to the golf courses.

18. They formed UC Group as the vehicle to develop and manage the golf courses and UC Properties to develop the adjacent residential real estate.

19. Due to the success of its first club, UC Group was able to enter into a joint venture with a golf course development and management company which provided the capital to expand the University Club concept to other schools.

20. UC Group's joint venture partner invested approximately \$30 million in the joint venture to acquire land and develop the golf courses at the Universities of Alabama, Kentucky and Louisville.

The Note Offerings

21. Between November 1998 and May 2002, UC Group and UC Properties, at Degenhart's direction, made between them 21 offerings of debt securities. Southern served as the underwriter for all of these offerings.

22. The face value of the offerings was nearly \$100 million. However, because many of the investments were rolled-over, the actual amount raised was approximately \$29.8 million.

23. The offerings functioned as a Ponzi scheme, with the new investments being used to pay off debt from previous issuances, while the total outstanding liability and number of investors continually expanded.

UC Properties 14% Junior Subordinated Notes

24. In November 1998, Degenhart initiated a private placement of 14% Junior Subordinated Notes on behalf of UC Properties with Southern serving as the underwriter for the offering.

25. The notes were structured to pay interest monthly at a rate of 14% per year and were to mature on December 20, 1999. The maturity was subsequently extended twice.

26. The offering was for a minimum of \$100,000 and a maximum of \$5 million. Southern and its sales force sold approximately \$4.3 million of these notes to more than 120 investors from November 1998 through May 2000.
27. The notes were secured by a pledge and mortgage held by the parent company of Southern, Atlantic Securities Exchange, Inc. ("ASE"), as trustee, on residential and commercial property located adjacent to the University of South Carolina club.
28. According to the offering circular, UC Properties would use the proceeds of the offering to purchase land options, land plans and surveys for the development of other University Club sites.
29. The offering materials misrepresented that UC Properties would provide the trustee, ASE, with offering proceeds to establish a sinking fund for the retirement of the notes. No such funds were ever provided.
30. Degenhart structured the bond offerings on behalf of UC Properties and served as 'bond counsel' for the offering.
31. As 'bond counsel,' Degenhart issued his legal opinion that the notes were enforceable and that the pledge and mortgage were valid.
32. Degenhart reviewed and approved the offering circular for the offering and knew that no sinking fund was established, contrary to representations in the offering circular.
33. Degenhart signed the checks for the many of the monthly interest payments to investors in these notes.

34. By January 2000, Degenhart knew, or was severely reckless in not knowing, that the monthly interest payments for the 14% Junior Subordinated Notes were being paid with funds raised from the short-term note offerings described below.

UC Properties Short-Term Notes

35. By the fall of 1999, UC Properties needed more funds to finance its developments and to pay interest on the 14% notes.

36. In October 1999, Degenhart met with the principals of Southern and decided to raise purportedly short-term funds to meet UC Properties' on-going cash needs.

37. Pursuant to that plan, UC Properties would issue, and Southern would sell, a private placement of UC Properties 30-day notes, which would pay interest at the rate of ten percent per month.

38. To explain why the notes were being issued at such a high interest rate, Degenhart claimed, and the Southern sales force repeated to investors, that UC Properties would obtain more permanent and favorable financing imminently.

39. Degenhart provided Southern with the information needed to create the offering materials.

40. Southern prepared the offering materials for the offerings from the information that Degenhart provided.

41. Degenhart signed a best efforts underwriting agreement for the notes, an escrow agreement and several letters, including an authorization permitting Southern employees to manage and disperse the investor funds placed in the escrow account.

42. The first series of short-term notes were issued on October 15, 1999. There was no offering circular.

43. The underwriting agreement for this offering and the subscription agreement that investors signed when they bought the notes, all of which Degenhart approved, falsely stated that the notes were secured by 108 acres of undeveloped land in Kentucky that UC Properties purportedly owned.

44. In fact, UC Properties was only a 40% participant in the limited liability company which owned the property and the actual security interest was limited to, at most, UC Properties' 40% interest in that venture.

45. Degenhart had negotiated with a group of Kentucky developers to create the limited liability company with UC Properties. Degenhart also helped negotiate the purchase of the 108 acres adjacent to a University Club golf course by the limited liability company.

46. When he signed the underwriting agreement for the first series of short-term notes, Degenhart knew that the description of the property purportedly securing the repayment of the notes was false since the property was owned by a limited liability company in which UC Properties held a 40% interest, and not by UC Properties.

47. Degenhart authorized Southern to manage the funds raised by the offerings, including writing checks to itself, UC Properties and, in later offerings, prior investors.

Additional Short-term Note Offerings

48. On November 15, 1999, Degenhart signed underwriting and escrow agreements, and approved subscription agreement, authorizing Southern to begin selling UC Properties Short-term Notes II.

49. The underwriting and subscription agreements again misrepresented that the 108 acres in Kentucky purportedly pledged as security for the notes were owned by UC Properties. This misrepresentation remained in the underwriting and subscription agreements for the subsequent short-term note offerings discussed below.

50. Southern established a separate escrow account for the second offering (and for each subsequent offering).

51. Degenhart also authorized the creation of a distribution account, which was used in this and subsequent offerings to pay prior investors.

52. The second short-term note offering raised a total of \$375,000.

53. Of that amount, \$281,750 was paid to the distribution account. Southern used the funds in the distribution account to make payments of principal and interest to earlier investors.

54. Subsequently, a new series of 30-day short-term notes were issued on the 15th of each month through November 2000.

55. As the number of investors and the total amount of the offerings increased with each subsequent offering, UC Properties added more of its property interests as collateral for the notes.

56. Degenhart personally signed underwriting and escrow agreements and a letter authorizing transfer of the offering proceeds to the distribution account, which Degenhart knew was used to pay principal and interest owed on the previous series of notes, for most of the offerings.

57. The fourteen short-term offerings as of November 2000 (Series I through XIV) had a total face value of approximately \$87 million, including roll over amounts, and resulted in an \$11 million liability, at 10% per month, for UC Properties by November 2000.

58. Over the period, more than \$75 million of principal and interest was paid to prior investors through the distribution account.

59. UC Properties received payments from the distribution account from 12 of the 14 offerings.

UC Group 18% “Debentures”

60. In the fall of 2000, Degenhart decided to sell a large note offering to pay off the high interest short-term notes and other obligations of UC Properties and to raise money for UC Group’s and UC Properties’ on-going developments.

61. Southern served as underwriter for this offering.

62. Degenhart structured the offering for UC Group to issue notes described as “secured debentures” up to a maximum amount of \$20 million, paying monthly interest at a rate of 18% per year.

63. These notes were to mature in 36 months. UC Group, through Southern, sold more than \$5.7 million of the 18% notes from November 2000 through August 2001.

64. UC Group was paid \$984,495 from this offering and \$4,015,050 was paid to the short-term note distribution account and distributed to earlier investors.

65. The offering was secured by UC Group's speculative interest in future proceeds, if any, from the golf course joint venture, by a pledge of all of UC Group's stock in the University Club Land Company LLC and by all of the outstanding "membership interests" in UC Properties.

66. The only asset of the UC Properties membership interests was the speculative right to share in any future profits from UC Properties.

67. UC Properties' profits, if any, could only be derived from interests UC Properties held in the limited liability companies that owned land adjacent to the University Club golf courses in South Carolina, Alabama and Kentucky.

68. By the time of the 18% note offering, the various membership interests that UC Properties held in the land adjacent to the University Club golf courses had previously been pledged as security for the short-term notes. This fact was not disclosed to investors in the 18% notes.

69. Degenhart personally edited the 18% notes offering circular.

70. Degenhart knew that the offering circular did not disclose to investors that UC Properties had previously pledged the sources of its prospective profits to secure payment of its obligations under the short-term notes.

71. The 18% notes offering circular included the financial statements of UC Group. UC Group's financial statements included the financial statements of its subsidiary and affiliated companies, including UC Properties.

72. Based upon these financial statements, the offering document claimed that the UC Group and its affiliates (including UC Properties) had issued approximately \$18,000,000 of debt securities to third parties, bearing interest at rates between 10% and 14% with varying maturities.

73. In fact, the \$18 million of debt identified in the audited financial statements did not include more than \$11 million principal, at an interest rate of 10% per month, that UC Properties owed on the short-term notes at the time of the offering.

74. At the time of the 18% note offering, Degenhart knew or was severely reckless in not knowing, that UC Properties was obligated to pay the short-term notes outstanding at the time, and interest accruing on them at 10% per month, or more than 120% per year.

75. Degenhart edited and approved the 18% note offering circular and knew that it did not disclose the existence of the short-term note liability or the high interest rate UC Properties was obligated to pay on those notes.

UC Properties Resumes Short-Term Note Offerings

76. The 18% note offering did not raise sufficient funds to pay-off the entire short-term note obligation.

77. Beginning December 15, 2000, while the 18% offering was under way, Degenhart authorized UC Properties to raise additional funds with four subsequent 90-day UC Properties short-term note offerings, Series XV, XVI, XVII and XVIII, again bearing 10% per month interest, to expire in March, June, September and December 2001, respectively.

78. Throughout all of the offerings, Degenhart misrepresented to investors through Southern that UC Properties was paying 10% per month for money in the short term because its

real estate development plans were so profitable that it would soon be able to refinance all of its properties on more favorable terms.

79. This refinancing would supposedly raise sufficient funds to provide UC Properties with adequate capital to complete the development of its properties and begin generating profit from lot sales.

UC Properties Secured Notes

80. By December 2001, Degenhart had failed to obtain the financing that he had been promising investors since late 2000.

81. In order to finance the on-going obligations of his companies, Degenhart authorized Southern to issue and sell the so-called UC Properties Secured Note offering.

82. UC Properties sold this offering through Southern from December 2001 until May 2002, and raised a total of \$1.662 million.

83. The Secured Notes were purportedly secured by a pledge and mortgage on 19 acres of commercial property that UC Properties owned near the University of South Carolina club.

84. The subscription agreement did not disclose that UC Properties had previously pledged this asset to secure payment of the 14% notes, most of which were still outstanding at the time, or that it had pledged all of its assets to secure the 18% secured notes.

85. As security for the notes sold in the Secured Note offering, Degenhart executed a pledge and mortgage of the property in favor of an entity controlled by Southern, purportedly for the benefit of investors.

86. He also signed the underwriting agreement for the secured note offering knowing that the 14% notes, the 18% notes and many of the short-term notes were in default.

87. Degenhart knew or was severely reckless in not knowing that UC Properties defaults on these earlier obligations were not disclosed to the investors who purchased the Secured Notes.

88. In July 2001, five months before the Secured Note offering, the tax assessor in the country where the land was located initiated proceedings to sell the 19 acres for unpaid taxes.

89. The tax sale was completed by October 2001, giving the owner of the property, UC Properties, until November 2002 to redeem the property by the payment of the \$45,000 in unpaid taxes.

90. The offering document for the secured note offering did not disclose this outstanding tax liability on the property, although notice of the sale was sent to UC Properties at Degenhart's law office and the county land records clearly showed the outstanding tax liability at the time of the offering.

91. In May 2002, when the Commission initially obtained a preliminary injunction to enjoin Southern's involvement in this scheme, the University Club entities owed approximately \$50 million in outstanding principal and interest to investors.

92. Degenhart knew, or was severely reckless for not knowing, that investors were told falsely that UC Properties could afford to pay the high rate of return on its short-term notes because UC Properties was very close to obtaining favorable, long-term financing for its business. In fact, Degenhart knew or was severely reckless in not knowing that no such financing was imminent.

93. Degenhart knew, or was severely reckless for not knowing, that the UC Group and UC Properties note offerings functioned collectively as a Ponzi scheme and that interest payments to investors could only be made by raising additional money from later investors. Degenhart knew or was severely reckless in not knowing that investors were not told of the dependence on new investors to pay amounts already owing. Degenhart knew that the offering materials did not disclose this fact.

94. Investors who purchased the short-term notes were told falsely that there was sufficient collateral in certain real estate owned by UC Properties to secure the payment of the short-term notes.

95. Degenhart knew or was severely reckless in not knowing that the collateral was insufficient to secure the payment of the notes and, in fact, was not owned by UC Properties or had previously been pledged to secure other obligations.

96. Degenhart knew or was severely reckless in not knowing that the UC Properties Short Term Notes had been in default since late 2001. Subsequent investors were not informed, by the offering materials or otherwise, about the ongoing default. Degenhart reviewed and approved the offering materials.

Count I –Fraud
Violations of Section 17(a)(1) of the Securities Act
[15 U.S.C. § 77q(a)(1)]

97. Paragraphs 1 through 96 are hereby re-alleged and are incorporated herein by reference.

98. From at least 1999 through at least April 2002, Defendants Paul V. Degenhart, UC Group, Inc. and UC Properties, LLC, in the offer and sale of the securities described herein, by the use of means and instruments of transportation and communication in interstate commerce and by use of the mails, directly and indirectly, employed devices, schemes and artifices to defraud purchasers of such securities, all as more particularly described above.

99. In engaging in such conduct, the Defendants acted with scienter, that is, with an intent to deceive, manipulate or defraud or with a severe reckless disregard for the truth.

100. By reason of the foregoing, the Defendants Paul V. Degenhart, UC Group, Inc. and UC Properties, LLC, directly and indirectly, have violated and, unless enjoined, will continue to violate Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

Count II--Fraud

Violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)]

101. Paragraphs 1 through 96 are hereby re-alleged and are incorporated herein by reference.

102. From at least 1999 through at least April 2002, Defendants Paul V. Degenhart, UC Group, Inc. and UC Properties, LLC, in the offer and sale of the securities described herein, by use of means and instruments of transportation and communication in interstate commerce and by use of the mails, directly and indirectly:

- a) obtained money and property by means of untrue statements of material fact and omissions 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

b) engaged in transactions, practices and courses of business which would and did operate as a fraud and deceit upon the purchasers of such securities, all as more particularly described above.

103. By reason of the foregoing, Defendants Paul V. Degenhart, UC Group, Inc. and UC Properties, LLC, directly and indirectly, have violated and, unless enjoined, will continue to violate Sections 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. 77q(a)(2) and 77q(a)(3)].

Count III--Fraud

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]

104. Paragraphs 1 through 96 are hereby re-alleged and are incorporated herein by reference.

105. From at least 1999 through at least April 2002, Defendants Paul V. Degenhart, UC Group, Inc. and UC Properties, LLC, in connection with the purchase and sale of securities described herein, by the use of the means and instrumentalities of interstate commerce and by use of the mails, directly and indirectly:

- 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 would and did operate as a fraud and deceit upon the purchasers of such securities, all as more particularly described above.

106. The Defendants knowingly, intentionally, and/or with severe recklessness engaged in the aforementioned devices, schemes and artifices to defraud, made untrue statements of material facts and omitted to state material facts, and engaged in fraudulent acts, practices and courses of business. In engaging in such conduct, the Defendants acted with scienter, that is, with intent to deceive, manipulate or defraud or with a severe reckless disregard for the truth.

107. By reason of the foregoing, the Defendants Degenhart, UC Group and UC Properties, directly and indirectly, have 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 thereunder [17 C.F.R. 240.10b-5].

PRAYER FOR RELIEF

WHEREFORE, Plaintiff Commission respectfully prays for:

I.

Findings of Fact and Conclusions of Law pursuant to Rule 52 of the Federal Rules of Civil Procedure, finding that the Defendants named herein committed the violations alleged herein and that Defendant Degenhart received ill-gotten gains.

II.

A permanent injunction enjoining defendants Degenhart, UC Group and UC Properties, their officers, agents, servants, employees, and attorneys, and those persons in active concert or participation with them who receive actual notice of the order of injunction, by personal service or otherwise, and each of them, from violating, directly or indirectly, Section 17(a) of the Securities Act [15 U.S.C. 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. 78j(b)], and Rule 10b-5 [17 C.F.R. 240.10b-5] promulgated thereunder.

III.

An order requiring Defendant Degenhart to disgorge all ill-gotten gains, with prejudgment interest thereon, to effect the remedial purposes of the federal securities laws.

IV.

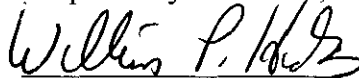
An order pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)] imposing civil penalties against Defendant Degenhart.

V.

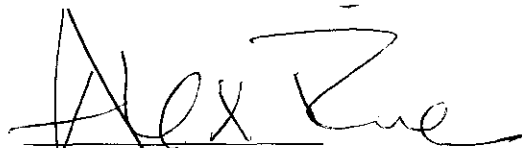
Such other and further relief as this Court may deem just, equitable, and appropriate in connection with the enforcement of the federal securities laws and for the protection of investors.

Dated: December 10, 2004

Respectfully submitted,



William P. Hicks
District Trial Counsel
Georgia Bar No. 351649

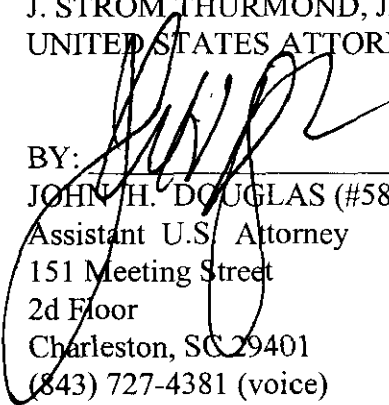


Alex Rue
Senior Trial Counsel
Georgia Bar No. 618950

Counsel for Plaintiff
Securities and Exchange Commission
3475 Lenox Road, N.E., Suite 1000
Atlanta, Georgia 30326-1232
Tel: (404) 842-7612 (Hicks)
Tel: (404) 842-7616 (Rue)
Fax: (404) 842-7679
E-mail: Hicksw@sec.gov
E-mail: Ruea@sec.gov

LOCAL COUNSEL:

J. STROM THURMOND, JR.
UNITED STATES ATTORNEY

BY: 
JOHN H. DOUGLAS (#587)
Assistant U.S. Attorney
151 Meeting Street
2d Floor
Charleston, SC 29401
(843) 727-4381 (voice)
(843) 727-4443 (fax)
email: john.douglas@usdoj.gov