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SEC Charges Five Co-Conspirators in Reverse Merger Scheme

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On May 5, 2014 the **Securities and Exchange Commission (SEC)** brought charges in the US District Court for the District of New Jersey against a Toronto-based consultant and four associates for **running a scheme to illegally reap millions in profits** by taking two Chinese companies, **China Auto Logistics Inc. and Guanwei Recycling Corp.**, public through reverse mergers with US public shell companies and then illegally manipulating and inflating the price of the stock.

According to the SEC's complaint, the scheme began in 2009, when S. Paul Kelley and his associates in the Kelley Group reached "secret oral agreements" with the management of China Auto and Guanwei that they would cover all of the companies' costs of going public in the United States in exchange for approximately 30 to 40 percent of the public companies' stocks. The defendants then acquired controlling interests in the stock of two publicly held **US "shell" companies**, which were used to conduct the reverse mergers with China Auto and Guanwei. They hid their control over the Chinese companies' stock through a vast network of US and international entities, sold shares in unregistered distributions and manipulated trading in the stock to inflate its price before dumping the shares.

Kelley agreed, along with co-conspirators Roger D. Lockhart and Robert S. Agriogianis, to settle the SEC's charges. In the settlements, Kelley agreed to pay \$6,220,812 in disgorgement, prejudgment interest and penalties. Lockhart agreed to pay \$3,152,268 in disgorgement, prejudgment interest and penalties, along with consenting to a bar from participation in any penny stock offering. In a cooperation agreement, Agriogianis also agreed to a penny stock bar and permanent injunctions. Notably, the three individuals were allowed to neither admit nor deny the charges, which is surprising given the scope of the conduct and the SEC's recent posture on settlements.

SEC v. S. Paul Kelley, et al., Civil Action No. 2:14-cv-2827 (D. N.J., May 5, 2014).

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