

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO.

SECURITIES AND)
EXCHANGE COMMISSION,)
)
Plaintiff,)
v.)
)
THOMAS GAFFNEY and)
HEALTH SCIENCES GROUP, INC.,)
)
Defendants.)
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COMPLAINT

Plaintiff Securities and Exchange Commission alleges as follows:

I. INTRODUCTION

1. From approximately March 2009 through July 2009, Defendants Thomas Gaffney and Health Sciences Group, Inc. engaged in a fraudulent scheme involving the company's stock. The scheme involved illicit kickbacks to encourage the purchase of the stock and phony agreements to mask those kickbacks.

2. Gaffney, the CEO and president of Health Sciences, paid illegal kickbacks to a purported fiduciary of a pension fund so the fiduciary would purchase 400 million restricted shares of the company's stock. Health Sciences also issued shares of its stock as undisclosed compensation to a middleman who introduced them to the purported pension fund fiduciary.

3. Unbeknownst to Defendants, the corrupt pension fund fiduciary was a creation of the FBI. The pension fund's purported friend who helped arrange the deals

was an undercover FBI agent, and the middleman was a witness cooperating with the FBI.

4. Defendants attempted to conceal the kickbacks by entering into a sham consulting agreement between Health Sciences and a bogus consulting company purportedly created to receive the kickbacks.

5. As a result of the conduct described in this Complaint, Defendants violated Section 17(a)(1) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. § 77q(a)(1); and Section 10(b) and Rule 10b-5(a) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5(a). Unless restrained and enjoined, Defendants are reasonably likely to continue to violate the federal securities laws.

6. The Commission respectfully requests that the Court enter: (a) a permanent injunction restraining and enjoining Defendants from violating the federal securities laws; (b) an order directing Defendants to pay disgorgement with prejudgment interest; (c) an order directing Defendants to pay civil money penalties; (d) an order barring Gaffney from participating in any offering of a penny stock; and (e) an order barring Gaffney 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 or that is required to file reports pursuant to Section 15(d) of the Exchange Act.

II. DEFENDANTS

7. Gaffney was the CEO and president of Health Sciences. He resides in Satellite Beach, Florida.

8. Health Sciences was a Delaware corporation with principal offices located in Indian Harbour Beach, Florida at all times relevant to this action, and now located in Newport Beach, California. The company purported to be a provider of health and wellness services through its website and health focused publications. Its common stock has been quoted on OTC Link operated by OTC Markets Group, Inc. under the symbol "HESG" at all times relevant to this action. Health Sciences filed three Forms SB-2 with the Commission under the Securities Act, which were declared effective in February 2001, October 2003, and February 2006, and the company thereby became subject to Section 15(d) reporting obligations. Health Sciences filed a Form 15 on November 16, 2012 certifying that there were fewer than 300 record holders of its common stock and suspending its Section 15(d) reporting obligations.

9. Health Sciences is a "penny stock" as defined by the Exchange Act. At all times relevant to this action, the stock's shares traded at less than a penny per share. During the same time period, Health Sciences' stock did not meet any of the exceptions to penny stock classification pursuant to Section 3(a)(51) and Rule 3a51-1 of the Exchange Act. For example, the company's stock: (a) did not trade on a national securities exchange; (b) was not an "NMS stock," as defined in 17 C.F.R. § 242.600(b)(47); (c) did not have net tangible assets (*i.e.*, total assets less intangible assets and liabilities) in excess of \$5,000,000; and (d) did not have average revenue of approximately \$6,000,000 for the last three years. *See* Exchange Act, Rule 3a51-1(g).

III. JURISDICTION AND VENUE

10. The Court has jurisdiction over this action pursuant to Sections 20(d) and 22(a) of the Securities Act, 15 U.S.C. §§ 77t(d) and 77v(a); and Sections 21(d) and 27 of the Exchange Act, 15 U.S.C. §§ 78u(d) and 78aa.

11. This Court has personal jurisdiction over Defendants, and venue is proper in the Southern District of Florida, because a substantial part of Defendants' acts and transactions constituting violations of the Securities Act and the Exchange Act occurred in the District. For example, Gaffney met with the cooperating witness and the FBI agent on March 23, 2009 in Broward County to discuss the scheme. Additionally, on April 24, 2009, Defendants sent consulting and subscription agreements via express delivery to the FBI agent at a location in the District. On June 2, they sent a kickback to the same location.

12. Defendants, directly or indirectly, made use of the means or instruments of transportation or communication in interstate commerce, or of a means or instrumentality of interstate commerce, or of the mails, in connection with the conduct alleged in this Complaint.

IV. THE FRAUDULENT SCHEME

13. On March 23, 2009, following several phone calls and emails with the cooperating witness, Gaffney met with the witness and the FBI agent, who posed as a corrupt fiduciary of a pension fund, in Broward County, Florida to discuss a fraudulent scheme involving Health Sciences' stock.

14. During the meeting, the parties discussed the fiduciary nature of the pension fund trustee and manager, that there were risks involved, and how they did not want to draw attention to what they were doing.

15. As part of the scheme, Gaffney agreed the pension fund would purchase Health Sciences' restricted stock in exchange for an undisclosed 30% kickback by Gaffney and Health Sciences to the pension fund fiduciary. In addition, Gaffney and Health Sciences agreed the cooperating witness, as a middleman, would receive shares of the company's stock for introducing the parties to the deal.

16. To conceal the kickback, Gaffney and Health Sciences agreed to pay the kickback to a bogus consulting company, and they planned to enter into a phony consulting agreement. They understood the bogus consulting company would not be performing any actual consulting services.

17. During their meeting, the FBI agent discussed with Gaffney how the kickbacks were paid to "shell" corporations that had accounts that were untraceable and described the consulting agreement as "basically . . . a document to cover the paper trail."

18. Similarly, in a subsequent conversation with Gaffney, the cooperating witness reiterated that everyone would be "covered" because of "the paperwork trail."

A. The First Restricted Stock Transaction and Kickback

19. On April 23, 2009, the cooperating witness sent Gaffney, via facsimile, the bogus consulting and subscription agreements to execute. He also sent Gaffney a fake invoice, in the amount of \$6,000, for purported consulting services.

20. Gaffney executed the agreements on behalf of Health Sciences. The next day, he sent them via express delivery to the FBI agent, who had them signed and mailed

back to Health Sciences on April 28.

21. Pursuant to the subscription agreement, dated April 23, the pension fund agreed to purchase 200 million restricted shares of Health Sciences stock for \$20,000.

22. On April 29, 2009, the FBI wired \$20,000 to Health Sciences' bank account. The following day, Gaffney sent a \$6,000 kickback to the bogus consulting company in the form of a cashier's check dated April 30.

23. On May 20, 2009, a stock certificate was issued and sent to the pension fund for 200 million restricted shares of Health Sciences' stock. Defendants caused Health Sciences' transfer agent to send the certificate to the pension fund. In addition, on May 13, a stock certificate was issued to the cooperating witness for 30 million free trading shares of Health Science's stock. Gaffney sent the certificate to the cooperating witness on May 20.

B. The Second Restricted Stock Transaction and Kickback

24. Shortly after completing the first transaction, Gaffney agreed to do another restricted stock deal.

25. Gaffney executed and sent a second subscription agreement to the FBI agent, which was signed and mailed back on May 28, 2009. Pursuant to the agreement, dated May 22, 2009, the pension fund agreed to purchase another 200 million restricted shares of Health Sciences stock for \$20,000.

26. On May 29, 2009, the FBI wired \$20,000 to Health Sciences' bank account. A few days later, on June 2, Gaffney sent a \$6,000 kickback to the bogus consulting company in the form of a cashier's check dated June 2.

27. On June 8, 2009, a stock certificate was issued and sent to the pension fund for 200 million restricted shares of Health Sciences' stock. Defendants caused Health Sciences' transfer agent to send the certificate to the pension fund. In addition, on June 23, a stock certificate was issued to the cooperating witness for 50 million free trading shares of Health Science's stock. Gaffney sent the certificate to the cooperating witness on June 24.

28. After completing the second deal, Gaffney continued to contact the cooperating witness through early July 2009 about doing additional deals. Ultimately, however, there were no further transactions.

COUNT I

Fraud In Violation of Section 17(a)(1) of the Securities Act

29. The Commission realleges and incorporates paragraphs 1 through 28 of this Complaint.

30. From approximately March through July 2009, Defendants directly and indirectly, by use of the means or instruments of transportation or communication in interstate commerce and by use of the mails, in the offer or sale of securities, as described in this Complaint, knowingly, willfully or recklessly employed devices, schemes or artifices to defraud.

31. By reason of the foregoing, Defendants, directly and indirectly, violated and, unless enjoined, are reasonably likely to continue to violate, Section 17(a)(1) of the Securities Act, 15 U.S.C. §77q(a)(1).

COUNT II

Fraud in Violation of Section 10(b) and Rule 10b-5(a) of the Exchange Act

32. The Commission realleges and incorporates paragraphs 1 through 28 of this Complaint.

33. From approximately March through July 2009, Defendants, directly and indirectly, by use of any means or instrumentalities of interstate commerce, or of the mails, in connection with the purchase or sale of securities, knowingly, willfully or recklessly, employed devices, schemes, or artifices to defraud.

34. By reason of the foregoing, Defendants, directly or indirectly, violated and, unless enjoined, are reasonably likely to continue to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5(a), 17 C.F.R. § 240.10b-5(a).

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that the Court:

I.

Declaratory Relief

Declare, determine, and find that Defendants have committed the violations of the federal securities laws alleged in this Complaint.

II.

Permanent Injunctive Relief

Issue a Permanent Injunction restraining and enjoining Defendants, their officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from violating Section 17(a)(1) of the Securities Act and Section 10(b) and Rule 10b-5(a) of the Exchange Act, as indicated above.

III.

Disgorgement

Issue an Order directing both Defendants to disgorge all ill-gotten gains, including prejudgment interest, resulting from the acts or courses of conduct alleged in this Complaint.

IV.

Penalties

Issue an Order directing Defendants to pay civil money penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d); and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d).

V.

Penny Stock Bar

Issue an Order barring Gaffney from participating in any offering of a penny stock, pursuant to Section 20(g) of the Securities Act, 15 U.S.C. § 77t(g), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d), for the violations alleged in this Complaint.

VI.

Officer and Director Bar

Issue an Order pursuant to Section 20(e) of the Securities Act and Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 77t(e) and 15 U.S.C. § 78u(d)(2), barring Gaffney 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 or that is required to file reports pursuant to Section 15(d) of the Exchange Act.

VII.

Further Relief

Grant such other and further relief as may be necessary and appropriate.

VIII.

Retention of Jurisdiction

Further, the Commission respectfully requests that the Court retain jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that it may enter, or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court.

Respectfully submitted,

August 14, 2013

By:



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