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BUSINESS PULSE SURVEY: Is it good or bad for business to have Democrats control

Megafund rep hit with \$9.4 million judgment

Dallas Business Journal - January 12, 2007 by [Jeff Bounds](#) Staff Writer

The court-appointed custodian for a defunct Flower Mound organization accused of swindling \$13.8 million from 70 investors has obtained a \$9.4 million judgment against the firm's former attorney, according to court records.

In court filings, attorney Michael Quilling accused Kenneth Wayne Humphries of Hopkinsville, Ky., of making false statements to a Megafund investor about how \$9.5 million would be used and about how the investment would be "insured against losses of every description."

Humphries has denied any wrongdoing.

Quilling, of the Dallas law firm Quilling Selander Cummiskey & Lownds PC, is also receiver for the investor in question, an Oregon company called Lancorp Financial Group LLC.

In July 2005, the Securities and Exchange Commission sued Megafund and seven individuals and businesses over an investment scheme in which the defendants allegedly told investors they were pooling their money and then trying to profit through arbitrage. Arbitrage exploits price differences on the same or similar stocks, bonds, derivatives and other securities traded on the public markets.

The SEC claims investors were lured with promises of 120% annual returns with no risk and a portion of all profits being donated to charity.

The man who ran Megafund, Stanley Leitner, was founder and one-time CEO of Addison-based International Galleries Inc., an Addison multilevel marketing company that went into Chapter 7 bankruptcy last year. Leitner settled the SEC's claims against him last year on undisclosed terms.

In a Feb. 5, 2005, letter made public in court filings, attorney Humphries told Lancorp Financial President Gary Lancaster that "all funds involved in the 'trading program' are secured in a brokerage account at a major investment institution."

That letter also made the claim about investment funds being insured against losses.

In fact, Quilling's litigation claims that investors' cash was used "to pay for extravagant personal expenses and luxury items," along with \$19,000 in fees paid to Humphries.

The judgment against Humphries includes that \$19,000, along with \$9.4 million on a claim of "negligent misrepresentation" against him, court records say.

For his part, Humphries -- who couldn't be reached for comment -- denied wrongdoing and claimed in court filings that if he in fact "committed acts which constitute negligence, fraud or a violation of any federal or state law," he did so based on what Megafund had told him.

Quilling is not optimistic about collecting on the judgment. Humphries "is not a man of substantial means," Quilling says. "He's a solo practitioner in a small town in Kentucky. ... I suspect if we

push, he will have to file for bankruptcy."

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