

IN THE DISTRICT COURT OF TULSA COUNTY
STATE OF OKLAHOMA

DISTRICT COURT
FILED

AUG 29 2002

SALLY HOWE SMITH, COURT CLERK
STATE OF OKLA. TULSA COUNTY

Oklahoma Department of Securities)
ex rel. Irving L. Faught,)
Administrator,)
)
Plaintiff,)
)
v.)
)
Micheal C. Stokes, d/b/a)
M.C. Stokes & Associates,)
)
Defendant.)

Case No. **CJ 2002 05004**

DAVID PETERSON

PETITION FOR PERMANENT INJUNCTION

AND OTHER EQUITABLE RELIEF

COMES NOW the Plaintiff, Oklahoma Department of Securities, ex rel. Irving L. Faught, ("Department"), and for its claims against the above-named Defendant, alleges and states as follows:

OVERVIEW

1. This case involves violations of the Oklahoma Securities Act (the "Act"), Okla. Stat. tit. 71, §§ 1-413, 501, 701-703 (2001), by Micheal C. Stokes d/b/a M.C. Stokes and Associates ("Defendant"). Specifically, the Department alleges that Defendant failed to register as a broker-dealer and/or agent, failed to register securities for offer and/or sale in and/or from the State of Oklahoma, and perpetrated fraud in connection with the offer, sale or purchase of securities. These violations have occurred in connection with the offer and sale by Defendant of "insurance escrows" to investors.

JURISDICTION

2. The Administrator of the Department brings this action pursuant to Section 406.1 of the Act and is the proper party to bring this action against the Defendant.

3. Pursuant to Sections 2 and 413 of the Act, Defendant, in connection with his activities and the offer, sale, and purchase of securities, is subject to the provisions of the Act. By virtue of his transaction of business by contract and otherwise and commission of other acts in this state, Defendant is subject to the jurisdiction of this Court and to service of summons within or outside of this state.

DEFENDANT

4. Micheal C. Stokes ("Stokes") is an individual who, at all times material hereto, was a resident of the state of Oklahoma doing the acts complained of in his own name and/or in the name of M.C. Stokes and Associates.

NATURE OF THE CASE

5. At all times material hereto, Stokes was employed in the carpet cleaning business.

6. In or about June, 2002, Defendant began offering and selling what he described as "insurance escrows" (the "Escrow Contracts") to investors. Defendant offered and sold the Escrow Contracts in and/or from the state of Oklahoma.

7. While providing carpet cleaning services, Defendant would inform customers of the opportunity to invest in the Escrow Contracts. Defendant represented that he was familiar with the Escrow Contracts because his employment primarily involved work for insurance companies on fire related claims.

8. Defendant represented to investors that the Escrow Contracts were a means by which insurance companies borrowed money from investors to pay certain types of claims. Defendant explained to investors that if an insurance claim were to remain unresolved over an extended period of time the insurance company would "close the claim on its books but continue to work it." Defendant further explained that the insurance company would then use the proceeds from the Escrow Contracts to pay all remaining expenses associated with a claim. When the claim was fully resolved the insurance company would then "reopen" the claim and return the principal amount of the Escrow Contract plus interest to the investor. The rate of return to the investor would be approximately 10% to 20% over a two or three week period of time.

9. Investors were told to make their checks payable to Stokes as the designated "agent" for each individual Escrow Contract.

10. Stokes stated to at least one investor that he had personally invested \$25,000.00 and had continued to "roll it over" into additional Escrow Contracts resulting in his investment balance reaching Seventy Five Thousand Dollars (\$75,000.00).

11. The Escrow Contracts of at least two investors specify a repayment date of July 13, 2002, and July 18, 2002. These two investors have received nothing in return for their investment.

FIRST CAUSE OF ACTION

(Violation of Section 201 of the Act: Failure to Register as a Broker-Dealer and/or Agent)

12. Plaintiff realleges and incorporates by reference each and every allegation contained in paragraphs 1 through 11 above.

13. Defendant, by virtue of his efforts and activities in effecting transactions in securities for the account of others or for its own account, is a broker-dealer, broker-dealer agent or an issuer agent, as defined in Section 2 of the Act. Defendant is not, and has not been, registered under the Act as a broker-dealer, broker-dealer agent or an issuer agent as required by Section 201 of the Act. By reason of the foregoing, Defendant has violated, and unless enjoined, will continue to violate, Section 201 of the Act.

SECOND CAUSE OF ACTION

(Violation of Section 301 of the Act: Offering and/or Selling Unregistered Securities)

14. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding cause of action.

15. Defendant has offered and/or sold securities in and/or from this state. Such securities were not registered under the Act. By reason of the foregoing, Defendant has violated, and unless enjoined, will continue to violate, Section 301 of the Act.

THIRD CAUSE OF ACTION

(Violation of Section 101(2) of the Act: Untrue Statements of Material Facts and Omissions of Material Facts in Connection With Offer, Sale or Purchase of Securities)

16. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding causes of action.

17. Defendant, in connection with the offer, sale or purchase of securities, directly and indirectly, made untrue statements of a material fact in representing to

investors that the insurance companies referenced in the Escrow Contracts offer such investments. The insurance companies referenced by Defendant do not offer such investments.

18. Defendant, in connection with the offer, sale or purchase of securities, directly and indirectly, 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, the following matters:

- a. that on September 3, 1998, Defendant plead guilty in the United States District Court for the Northern District of Oklahoma to one count of Making a False Statement to a Federally Insured Financial Institution, in violation of 18 U.S.C. §1014;
- b. that Defendant was currently under supervised release following his release from custody of the United States Bureau of Prisons;
- c. that the individuals identified in the Escrow Contracts as the "registered service representative" of the insurance company were not associated or affiliated with the referenced insurance company;
and
- d. that the Escrow Contracts are securities that were not registered under the Act.

19. By reason of the foregoing, Defendant, directly and indirectly, violated, and unless enjoined, will continue to violate, subsection (2) of Section 101 of the Act.

FOURTH CAUSE OF ACTION

**(Violation of Section 101(3) of the Act:
Engaging in any act, practice, or course of business which operates or would
operate as a fraud or deceit upon any person)**

20. The Department realleges and incorporates by reference each and every allegation contained in the preceding causes of action.

21. Defendant, in connection with the offer, sale or purchase of securities, and through the use of the untrue statements of material fact and the omissions of material facts described in paragraphs 5 through 11, 17 and 18 above, engaged in an act, practice, or course of business that operated as a fraud or deceit upon investors.

22. By reason of the foregoing, Defendant, directly and indirectly, violated, and unless enjoined, will continue to violate, subsection (3) of Section 101 of the Act.

PRAYER FOR RELIEF

Defendant has engaged in acts and practices in violation of the Act and has, as a result of these activities, received a substantial amount of money from investors. Unless enjoined, Defendant will continue to engage in the acts and practices set forth herein and acts and practices of similar purport and object. A danger exists that the money received by Defendant from the investors or money or securities held by Defendant on behalf of the investors will be lost, removed or transferred. A temporary restraining order to issue instanter and temporary and permanent injunctions to issue against Defendant are necessary to preserve these funds, securities and the records relating thereto and to prevent further violations of the Act.

WHEREFORE, based upon the foregoing, and pursuant to the authority specifically granted by Section 406.1 of the Act, the Department prays for the court to grant the following relief:

I.

A temporary restraining order to issue instanter and a temporary injunction, restraining and enjoining the Defendant, his agents, servants, employees, assigns and all those persons, directly or indirectly, acting on his behalf, under his direction and control, and/or in active concert or participation with him who receive actual notice of the restraining order or temporary injunction, by personal service, facsimile or otherwise, and each of them from:

- a. transacting business in this state as a broker-dealer, agent, investment adviser and/or investment adviser representative;
- b. offering and selling any security in this state;
- c. making untrue statements of material facts in connection with the offer, sale, and/or purchase of securities in and/or from this state;
- d. omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading, in connection with the offer, sale, and/or purchase of securities in and/or from this state;
- e. engaging in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person; and

II.

An order prohibiting Defendant, his agents, servants, employees, assigns and all those persons, directly or indirectly, acting on his behalf, under his direction and control, and/or in active concert or participation with him who receive actual notice of the order, by personal service, facsimile or otherwise, and each of them from tampering with, mutilating, altering, erasing, concealing, removing, destroying or otherwise disposing of any and all books, records, documents, files, correspondence, computer disks, tapes or other data recordings of any type, pertaining to or referring to Defendant or any financial transactions by Defendant or to which Defendant was a party;

III.

An order freezing the assets of Defendant;

IV.

An order requiring Defendant to provide a full and accurate accounting of all monies received by him as a result of the scheme and an accounting as to the disposition of those monies;

V.

A permanent injunction forever enjoining and restraining Defendants from:

- a. violating Section 201 of the Act;
- b. violating Section 301 of the Act; and
- c. violating Section 101 of the Act;

VI.

An order requiring Defendant to make restitution to any and all investors who purchased securities from Defendant or who transferred money to Defendant for the purpose of making securities investments on their behalf;

VII.

An order requiring Defendant, his agents, servants, employees, assigns, and all persons, directly or indirectly, acting on his behalf, under his direction and control, and/or in active concert or participation with him, to disgorge all ill-gotten gains;

VIII.

An order imposing a civil penalty against Defendant in the amount of Fifty Thousand Dollars (\$50,000.00); and

IX.

Such other equitable relief as the Court may deem necessary, just and proper in connection with the enforcement of the Act.

Respectfully submitted,

OKLAHOMA DEPARTMENT OF SECURITIES
Irving L. Faught, Administrator

By:



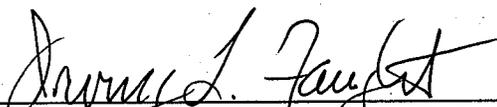
Shaun M. Mullins (OBA # 16869)
Oklahoma Department of Securities
120 North Robinson, Suite 860
Oklahoma City, Oklahoma 73102
(405) 280-7700

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA)

SS.

Irving Faught, of lawful age, being first duly sworn deposes and says: that he is the Administrator of the Oklahoma Department of Securities, that he has read the foregoing Petition for Permanent Injunction and Other Equitable Relief and knows the contents thereof, and that the matters and things stated therein have been provided to him by staff members of the Department under his authority and direction, and are true and correct to the best of his knowledge, information and belief.

(SEAL)



Irving L. Faught, ADMINISTRATOR OF THE
OKLAHOMA DEPARTMENT OF SECURITIES
120 North Robinson, Suite 860
Oklahoma City, Oklahoma 73102
(405) 280-7700

Subscribed and sworn to before me this 29th day of August, 2002.

(NOTARIAL SEAL)


Notary Public

My Commission Expires:

December 21, 2003