

State of Missouri
Office of Secretary of State

Case No. AP-05-21

IN THE MATTER OF:

SON & CARTER, INC.;
FRANK N. SCOTT;
GREG CARTER, SR.; *and*
GREG CARTER, JR.,

Respondents.

Serve at:

Son & Carter, Inc.
215 S. Jackson
Joplin, Missouri 64801

Frank N. Scott
4732 State Highway JJ
Blue Eye, Missouri 65611

Greg Carter, Jr.
306 Saginaw Road
Joplin, Missouri 64804

Greg Carter, Sr.
2819 Ohio
Joplin, Missouri 64804

ORDER TO CEASE AND DESIST

On the 15th day of July 2005, Mary S. Hosmer, Assistant Commissioner of Securities, submitted a petition for a Cease and Desist Order. After reviewing the petition, the Acting Commissioner issues the following findings of fact, conclusions of law and order:

I. FINDINGS OF FACT

A. Nature of the Case

1. In 2003, Greg Carter, Sr., Greg Carter, Jr., and their corporation, Sons and Carter, Inc. and Frank L. Scott offered and sold securities in Son & Carter, Inc. Respondents claimed that Greg Carter, Sr. had invented a composition that could be used to manufacture a cutting torch and could also generate electricity to fulfill the needs of Springfield, Missouri. Respondents stated they had contracts pending with the military and that Homeland Security was going to use these torches. Respondents told a Missouri investor that there were no risks and the returns on the investment would be huge but failed to tell the investor that the securities were not registered, failed to supply any information to the investor on the contracts they had with the military and failed to tell the investor what information they relied on to claim that the composition could generate electricity. A mechanical engineer that Respondents contacted stated that the power generator diagram proposed "violates most of the fundamental laws of thermodynamics and also defies the practical limits of heat transfer."

B. Respondents

2. Son & Carter, Inc ("SCI") is a Missouri Corporation. SCI was incorporated in October 2001 and has an address at P.O. Box 125, Saginaw, Missouri 64864.
3. Frank N. Scott a/k/a Franklin N. Scott ("Scott") purported to be an "SEC agent" and solicited funds for SCI. Scott has a last known address of 4732 State Highway JJ, Blue Eye, Missouri 65611. Scott was a registered securities agent in Missouri from May 2, 2002 through October 29, 2004.

4. Greg Carter, Jr. ("Carter Jr.") is a co-organizer of SCI and the President of SCI and has a last known address of 306 Saginaw Road, Joplin, Missouri 64804.
5. Greg Carter, Sr. ("Carter Sr.") is a co-organizer of SCI and at all times pertinent hereto was the Secretary of SCI. Carter Sr. has a last known address of 2819 Ohio, Joplin, Missouri 64804.
6. As used in this document, the term "Respondents" refers to SCI, Scott, Carter Jr., and Carter Sr.

C. Other Relevant Entities and Individuals

7. Thermite Technology Corporation ("TTC") is a Missouri corporation with an address at 4732 State Highway JJ, Blue Eye, Missouri 65611. TTC was incorporated on June 20, 2003.
8. American Energy Research ("AER") Corporation was incorporated in Missouri on or about July 11, 2003. AER was administratively dissolved on June 24, 2004.
9. Pyrotechnic Tool Corporation, a/k/a Pyrotechnic Tool Company ("PTC") is a Missouri Corporation incorporated on July 11, 2003. PTC is administratively dissolved on June 24, 2004.
10. SafePro Corporation ("SafePro") is a Missouri Corporation incorporated by Pat J. Gross on July 11, 2003, and has a last-known address at 516 S. Virginia Avenue, Joplin, Missouri 64801. SafePro was administratively dissolved on June 24, 2004.
11. Pyrotechnic Responder Company ("PRC") is a Missouri corporation incorporated by Pat J. Gross on July 11, 2003, and has a last-known address at 512 S. Virginia Avenue, Joplin, Missouri 65801. PRC was administratively dissolved on June 24, 2004.
12. Pat J. Gross ("Gross") was, at all times pertinent to this matter, the wife of Scott and has a last known address of 4732 State Highway JJ, Blue Eye, Missouri 65611.

D. Offer and Sale of Securities to a Missouri Resident

13. On July 7, 2003, Carter Sr., Carter Jr., and Scott, as vice-president for Thermite Technology Corporation entered into a letter of intent which contemplated that SCI would merge with a newly formed corporation, AER, and stated, in part, as follows:

3. Performance Requirement for TTC to Receive Stock and Royalty Income Rights

A. Raise \$250,000 for sale of 2% of issued stock of Son and Carter, which will be transferred in exchange for AER stock at a value of \$1250 per share.

14. Sometime prior to July 18, 2003, Scott met with a Missouri resident ("MR") about an investment opportunity in SCI. Scott told MR that Carter Jr. and Carter Sr. had invented a pyrotechnic composition that could be used to produce a cutting torch; and the same composition could be utilized for other purposes, including the development of an alternative electric energy plant. Scott told MR that SCI owned patents on the composition and the cutting torch.
15. Scott told MR that MR could purchase 1% of the Carters' personal shares of SCI for \$125,000. MR was not given any information to verify the Carters' holdings or the valuation of the shares.
16. Scott arranged for MR to attend a demonstration of the cutting torch to take place in Springfield, Missouri on July 18, 2003.
17. On July 18, 2003, MR attended the demonstration and was told by Respondent Carter, Sr. that:
 - a. the torch was based on a composition invented by Carter Sr.
 - b. the composition could be used to develop a room-sized electric energy plant that could produce enough electricity to fulfill the needs of the City of Springfield at a unit cost of \$2,000,000;
 - c. the patent for the energy plant would be filed within two weeks;
 - d. there were pending military contracts for the torch;
 - e. there were demands by Homeland Security for extraction kits, which would include SCI's torches;
 - f. MR's investment would multiply several times in one to two years on the torch sales alone;
 - g. there was no way to know the magnitude of the profit from the electrical plants; but that the returns would be huge and would make all of the investors very wealthy people within a relatively short period of time;

- h. there were no risks, because the patent protected the thermite composition as their exclusive product and that all that was needed was funds to begin production of the torches to fulfill the pending contracts with Homeland Security and the military; and
 - i. MR's money would go back into SCI to enable the company to move forward on the projects described above.
18. On July 23, 2003, after receiving wire instructions from an attorney for Respondents Carter, Sr. and Carter, Jr., MR wired \$125,000 to Respondents from MR's bank account in Springfield, Missouri.
19. Sometime after July 23, 2003, MR received a certificate for 100 shares of stock in SCI, dated July 23, 2003.

E. Respondents' Violative Conduct

20. On July 16, 2003, the licensing rights for the patent owned and the pending patent applied for by Carter Jr. and SCI were assigned to three corporations organized on July 11, 2003: Pyrotechnic Tool Corporation, SafePro Corporation and Pyrotechnic Responder Company. This information was not provided to MR.
21. MR was not provided any written financial information, operation costs, company background, associated entities or information concerning the company's prospects, its principals' background and/or history.
22. A search of the United States Patent Office database available online at <http://portal.uspto.gov/external/portal/pair> indicates that a patent on the pyrotechnic thermite composition was issued to Carter Jr. on September 30, 2003.
23. The United States Patent Office database indicates that although an application for the patent on the portable metal cutting pyrotechnic torch was filed in February 2002, the patent was never issued.
24. The United States Patent Office database does not contain any indication that an application for a patent on the "energy plant" described by the SCI Respondents has been submitted.
25. During its investigation, the Securities Division, by letter dated March 2, 2005, requested additional information from Carter Jr. and Carter Sr. concerning the offering and requesting a claim of exemption from registration or exception from definition upon which Respondents relied in offering unregistered securities or any claim that the securities were federal covered securities.
26. On March 14, 2005, the Securities Division received a response from Carter Jr. stating, in part, as follows:
- Son & Carter was incorporated in October, 2001.. All stock issued was owned by Greg Carter Sr. & Greg Carter Jr.. In July of 2003 Dr. Frank N. Scott, represented to my father and me that he was a registered SEC agent.. Dr. Scott represented that he could assist us in obtaining the capitalization necessary to fulfill the business purposes of Son and Carter, Inc.
27. By notice dated March 28, 2005, the Respondents SCI, Carter Sr. and Carter Jr. claimed the offering was exempt from registration because, "Son & Carter is a closely held corporation with 30,000 shares authorized and 10,000 shares issued. Any stock sale/transfer is privately held. No additional stock has been authorized or sold by our corporation." This response cited no exemption or exclusion and did not state sufficient facts to support a claim of any exemption or exclusion.
28. On April 10, 2005, Respondent Scott sent a response to a letter of inquiry from the Securities Division dated March 24, 2005. In this response Scott stated, among other things that:
- a. TTC had entered into a patent license agreement with SCI on September 5, 2003;
 - b. Scott could not get the Carters' formula for the torches to work;
 - c. Scott claimed Carter, Sr. had stolen a torch from a former employer and attempted to have it reverse engineered;
 - d. Scott hired an engineering firm to confirm the Carters' representation that the torch technology could be used to build a power plant that could satisfy the power needs of a city the size of Springfield ;
 - e. The engineering firm stated in their opinion that the plant was an impossibility; and
 - f. Scott was not able to produce a torch using the Carter's formula.
29. In connection with the offer, sale or purchase of a security in or from the state of Missouri, Respondents SCI, Carter Jr. and Carter Sr. told MR that Carter Sr. had invented a pyrotechnic composition that could be used to produce a cutting torch; and the same composition could be utilized for other purposes, including the development of an alternative electric energy plant, but omitted to provide MR with the following material information:
- a. The financial condition of SCI.

- a. THE MARKET COMPOSITION OF SCI,
 - b. Specifications and other technical information disclosing how the proposed energy plant was to work, where it was tested, the basis of the cost analysis and Respondents' claim that it would generate enough energy to provide electricity to the City of Springfield;
 - c. Background information on the directors, officers or other persons having similar status or performing similar functions for SCI, including but not limited to, their:
 - i. principal occupation for the previous five years;
 - ii. ownership or interest held by each person; and
 - iii. remuneration paid to such persons during the previous twelve months and estimated to be paid during the next twelve months, directly or indirectly;
 - d. The risks involved with the investment;
 - e. The issuer's background and/or history;
 - f. Material contracts or relationships with third parties, including but not limited to contracts allegedly pending with the Military and Homeland Security; and
 - g. Carter Jr. had previously assigned the licensing rights to the combustible composition and the torch to three other entities.
30. In connection with the offer, sale or purchase of a security in or from the state of Missouri, Scott told MR that MR could purchase 1% of the Carters' personal SCI holdings, but omitted to provide material information concerning the value of those holdings.
31. In connection with the offer, sale or purchase of a security to Missouri residents, Respondents SCI, Carter Sr., and Carter Jr. made the untrue statement of material fact that SCI, Carter Jr. or Carter Sr. owned a patent on the torch used in the demonstration to MR.
32. In connection with the offer, sale or purchase of a security to Missouri residents, Respondents made the untrue statement of material fact that SCI, Carter Jr. or Carter Sr. would file an application for a patent on the electric energy plant within two weeks, when in fact no such application has been filed.
33. During its investigation, the Securities Division, by letter dated March 24, 2005, requested additional information from Scott concerning the offering and requesting a claim of exemption from registration or exception from definition upon which Scott relied in offering unregistered securities or any claim that the securities were federal covered securities. Scott's response was due by April 15, 2005.
34. Scott did not respond to this inquiry.
35. This Order is in the public interest.

CONCLUSIONS OF LAW

1. §409.401(o), RSMo, 2000, includes "stock" within the definition of a security. The interests offered and sold in SCI by Respondents as described in the above findings of fact constitute securities.
2. §409.101, RSMo 2000, provides that it is unlawful for any person, in connection with the offer, sale or purchase of any security (1) to employ any device, scheme, or artifice to defraud, (2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, or (3) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person. The conduct described in the above findings of fact constitutes violations of this section.
3. §409.301, RSMo 2000, provides that it is unlawful for any person to offer or sell any security in this state unless: (1) it is registered under this act; (2) the security or transaction is exempted under section 409.402; or (3) it is a federal covered security. The conduct described in the above findings of fact constitutes violations of this section.
4. §409.408(a), RSMo 2000, provides, in part, that:

The commissioner may require any person, who is selling or offering or who is about to sell or offer for sale or who has sold or offered for sale any security within this state, to file a statement of the claim of exemption or exception from a definition, if any, upon which such person is relying. . . . The refusal to furnish information as required by order of the commissioner pursuant to the provisions of this subsection, within a reasonable time to

be fixed by the commissioner, shall be proper ground for the entry of an order by the commissioner suspending the right to sell such security.

5. §409.408(b), RSMo 2000 provides, in part, that:

[I]f the commissioner shall believe, from evidence satisfactory to him, that such person is engaged or about to engage in any of the fraudulent or illegal practices or transactions above in this subsection referred to, he may issue and cause to be served upon such person and any other person or persons concerned or in any way participating in or about to participate in such fraudulent or illegal practices or transactions, an order prohibiting such person and such other person or persons from continuing such fraudulent or illegal practices or transactions or engaging therein or doing any act or acts in furtherance thereof.

6. The Missouri Commissioner of Securities is empowered to issue such orders as he may deem just. §409.408(b), RSMo 2000.

ORDER

NOW, THEREFORE, it is hereby ordered that Respondents, their agents, employees and servants, and all other persons participating in or about to participate in the above-described violations with knowledge of this order are prohibited from

1. Offering or selling securities in the form of Stock in SCI;
2. Violating §409.101(2), RSMo 2000, by omitting to state, in connection with the offer or sale of these securities to Missouri residents the following material facts:
 - a. The financial condition of SCI;
 - b. Specifications and other technical information disclosing how the proposed energy plant was to work, where it was tested, the basis of the cost analysis and Respondents' claim that it would generate enough energy to provide electricity to the City of Springfield;
 - c. Background information on the directors, officers or other persons having similar status or performing similar functions for SCI, including but not limited to, their:
 - i. principal occupation for the previous five years;
 - ii. ownership or interest held by each person; and
 - iii. remuneration paid to such persons during the previous twelve months and estimated to be paid during the next twelve months, directly or indirectly;
 - d. The risks involved with the investment;
 - e. The issuer's background and/or history;
 - f. Material contracts or relationships with third parties, including but not limited to contracts allegedly pending with the Military and Homeland Security; and
 - g. Carter Jr. had previously assigned the licensing rights to the combustible composition and the torch to three other entities.
3. Violating §409.101(2), RSMo 2000, by making the untrue statement of material fact that SCI owned a patent on the torch used in the demonstration to MR.
4. Violating §409.101(2), RSMo 2000, by making the untrue statement of material fact that SCI, Carter Jr. or Carter Sr. would file an application for a patent on the electric energy plant within two weeks, when in fact no such application has been filed.
5. Violating 409.301, RSMo 2000 by offering or selling any security that is not registered, unless the security is a federal covered security or has an effective exemption from registration.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY, MISSOURI THIS 15TH DAY OF JULY, 2005.

ROBIN CARNAHAN
SECRETARY OF STATE

(Signed/Sealed)
BARBARA WOOD
ACTING COMMISSIONER
OF SECURITIES