

advertisements in local newspapers advertising “FDIC insured” certificates of deposit promising returns as high as 7.75% per annum and employed a staff of three brokers, including his son, to sell what he claimed to be safe and secure certificates of deposit.

2. In reality, Hill had no such “close relationship” with Compass Bank, N.A., and the promised certificates of deposit were not purchased. Instead, Hill misappropriated his clients’ funds and then used the money for a variety of purposes, which included highly speculative stock and options trades, personal real estate purchases, ponzi-type payments to other investors and the payment of personal expenses. To conceal his fraud, Hill created confirmations ostensibly on Compass Bank letterhead, and falsely sent them to most of his clients. Recently, in October 2001, in an effort to further lull his victims, Hill notified several of his customers that he had “rolled over” each customer’s certificate of deposit into a new “loan,” and, not surprisingly, Hill failed to pay back to his customers the monies that were due and owing under the purported certificates of deposit.

3. The Commission, in the interest of protecting the public from any further unscrupulous and illegal activity, brings this action against Hill and MHI, seeking temporary, preliminary and permanent injunctive relief, disgorgement of all illicit profits and benefits Defendants have received plus accrued prejudgment interest and a civil monetary penalty. The Commission also seeks an asset freeze against Hill, MHI, and Stalwart Financial, an entity to which Hill diverted investor funds, an accounting and other incidental relief, as well as the appointment of a receiver to take possession of Hill’s assets and control over MHI and Stalwart Financial so that assets will not be dissipated and investors will be protected.

JURISDICTION AND VENUE

4. This Court has jurisdiction over this action pursuant to § 22(a) of the Securities Act of 1933 (the “Securities Act”) [15 U.S.C. §77v(a)], § 27 of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78(aa)] and Title 28 U.S.C. § 1331. Defendants, directly and indirectly, made use of the mails and of the means and instrumentalities of interstate commerce in connection with the acts, practices and courses of business described in this Complaint. Venue is proper because many of the transactions, acts, practices and courses of business described below occurred within the jurisdiction of the Northern District of Texas.

PARTIES

5. **Michael Earl Hill**, age 55 and a resident of Plano, Texas, has conducted business under the assumed name, Financial Investments, since at least 1984. Hill was a registered representative with several broker-dealers between 1991 and the present. Between May 1998 and December 2000, Hill was associated with Northstar Securities, Inc., a recently defunct broker-dealer. He is currently licensed, but unassociated with any broker-dealer.

6. **Mike Hill, Inc.**, is a Texas domestic corporation. It is wholly owned by Hill and has its principal place of business in Plano, Texas. Mike Hill, Inc. also operates under the d/b/a Financial Investments, and it is through the artifice of MHI that Hill conducted much of the fraud detailed herein. All investor funds raised in this scheme were deposited in bank and brokerage accounts in MHI’s name.

7. **Stalwart Financial Investments, L.L.C.**, is a Texas limited liability company. Hill is its managing member. Stalwart owns real property in Plano, Texas with a market value in excess of \$1 million. More than \$500,000 of investor funds misappropriated by Hill was used to

purchase this property. Stalwart Financial is named as a Relief Defendant solely for the purpose of obtaining equitable relief.

FACTUAL BACKGROUND

8. Beginning in or around August 1998, Hill began using his position as a registered representative to fleece elderly investors. By initially offering and selling financial products and securities to his elderly clientele through Northstar, Hill was able to obtain personal information concerning the assets and financial condition of those individuals. After acquiring this information, Hill solicited many of these elderly clients to purchase supposedly safe, FDIC-insured, 30 month, Compass Bank certificates of deposit (“CDs”). Hill induced his clients to purchase the purported CDs through him with claims that he could obtain a higher interest rate for them due to his relationship with Compass Bank. The purported CDs offered by Hill supposedly paid a higher-than-average return, up to 7.75%, at a time when legitimate bank CD rates ranged from approximately 5% to 6.5%.

9. To attract additional investors, Hill placed newspaper advertisements with the heading “Attention CD Buyers.” The advertisements, prominently featuring Northstar, with the address and phone number of Hill’s Northstar branch office, offered FDIC insured “callable certificates of deposit” with an Annual Percentage Yield of 7.75% and a final maturity in 2 ½ years. The ads further stated that the interest would be paid semi-annually and were not callable for one year. Hill had investors who responded to the advertisements execute new account agreements with Northstar.

10. After receiving their funds, Hill mailed to investors a customer confirmation ostensibly on letterhead from Compass Bank. This confirmation showed the interest rate, maturity date, interest payment dates, and that Compass Bank had issued the CD. Some later

customer confirmations were on Northstar letterhead, but still indicated that the investor had purchased a Compass Bank CD.

11. Hill began making timely semi-annual interest payments to the purported CD investors. With many interest checks, and without explanation, Hill included a document he titled “loan schedule.” This schedule listed the opening date (corresponding to the date of the alleged CD purchase), “loan” amount (corresponding to the amount of the initial CD purchase), current interest rate (corresponding to the CD rate promised), amount of each interest payment, length of the “loan” (30 months), payment frequency, compounding period, name of the payee, remaining payments (interest and principal), current balance and the final payment date (always 30 months from opening date). The document also included a list of all projected payment dates, and reflected whether the payment was for interest or principal and the amount of each projected payment. Nowhere on the “loan schedule” was there a reference to Compass Bank, Northstar or CDs.

12. From at least September 1998, until at least August 2000, Hill sold nearly \$4 million dollars worth of these alleged CDs to at least 40 investors, all but two of whom are Texas residents. Most of Hill’s victims are elderly and unaccredited investors.

13. Hill never purchased Compass Bank CDs for investors. Moreover, he had no pre-existing relationship with Compass Bank that would enable him to obtain an above market rate of return for them. The customer confirmations on Compass Bank letterhead, indicating that investors had purchased a Compass CD, were bogus – they were not legitimate Compass Bank confirmations. In reality, Hill pooled the investor funds and initially placed them in a Compass Bank account under his sole control in the name of MHI. In a ponzi-fashion, Hill used at least \$250,000 from the Compass account to make interest payments to investors. At least another

\$122,000 was paid from the Compass account to law firms, and approximately \$90,000 was paid toward the purchase of an office building held by Stalwart Financial. In addition, Hill withdrew at least \$50,000 in cash.

14. Hill transferred at least \$2.6 million, directly or indirectly, from the Compass account to a Charles Schwab brokerage account in MHI's name. In the MHI Schwab account Hill traded volatile securities, including derivatives, collateralized mortgage obligations, and options, as well as stock in several companies. On information and belief, Hill intended to generate his promised returns through his trading activity. Hill's trading performance, however, was erratic. In some months the account value increased substantially, and in other months the value declined substantially. The net result was that he gained only \$215,147 from his trading activity through August 2001. Hill also misappropriated substantial sums of investor funds from the Schwab account. He used approximately \$500,000 toward the purchase of the Stalwart office building, bringing the total amount of investor funds spent on the building to \$590,000. Finally, Hill used funds in the Schwab account to pay certain investors and to continue his ponzi payments to other investors. Approximately \$1.6 million was paid from the Schwab brokerage account to investors in both interest and principal payments.

15. According to the terms of the purported CDs Hill sold to many of his investors, their CDs recently reached maturity. Rather than pay the principal owed, Hill merely sent new, unexplained documents he titled "loan schedules" to these clients, in which the final payment date was pushed back for another 30 months. In effect, Hill rolled over the investors into new "loans" without their consent. Hill sent these new "loan schedules" to investors as recently as October 15, 2001. At least one investor informed Hill that she did not want to enter into a new investment, but rather wanted her funds returned. Instead of returning her funds, Hill sent her a

new “loan schedule” with a maturity date in 30 months. Many more of the CDs Hill sold will reach their maturity dates within the next few months. Hill continues to assure investors that their investments are safe and to engage in other lulling activities to pacify his defrauded clients.

CLAIMS

FIRST CLAIM

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

16. Plaintiff Commission repeats and incorporates paragraphs 1 through 15 of this Complaint by reference as if set forth *verbatim*.

17. Hill and MHI, directly or indirectly, singly or in concert with others, in connection with the purchase and sale of securities, by use of the means and instrumentalities of interstate commerce and by use of the mails have: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts and 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; and (c) engaged in acts, practices and courses of business which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons.

18. As a part of and in furtherance of his scheme, Hill and MHI, directly and indirectly, prepared, disseminated or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue statements of material facts and misrepresentations of material facts, and which 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, those set forth in paragraphs 1 through 15 above.

19. Hill and MHI made the above-referenced misrepresentations and omissions knowingly or with recklessness regarding the truth.

20. By reason of the foregoing, Hill and HMI have violated and, unless enjoined, will continue to violate the provisions of Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5].

SECOND CLAIM
Violations of Section 17(a) of the Securities Act

21. Plaintiff Commission repeats and incorporates paragraphs 1 through 15 of this Complaint by reference as if set forth *verbatim*.

22. Hill and MHI, directly or indirectly, singly or in concert with others, in the offer and sale of securities, by use of the means and instruments of transportation and communication in interstate commerce and by use of the mails, have: (a) employed devices, schemes or artifices to defraud; (b) obtained money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in transactions, practices or courses of business which operate or would operate as a fraud or deceit.

23. As part of and in furtherance of this scheme, Hill and MHI directly and indirectly, prepared, disseminated or used contracts, written offering documents, promotional materials, investor and other correspondence, and oral presentations, which contained untrue statements of material fact and which 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, those statements and omissions set forth in paragraphs 1 through 15 above.

24. Hill and MHI made the above-referenced misrepresentations and omissions knowingly or with recklessness regarding the truth. Defendants were also negligent in their actions regarding the representations and omissions alleged herein.

25. By reason of the foregoing, Hill and MHI have violated, and unless enjoined, will continue to violate Section 17(a) of the Securities Act [15 U.S.C. 77q(a)].

THIRD CLAIM
Violations of Sections 5(a) and 5(c) of the Securities Act

26. Plaintiff Commission repeats and incorporates paragraphs 1 through 15 of this Complaint by reference as if set forth *verbatim*.

27. Hill and MHI, directly or indirectly, singly or in concert with others, have been offering to sell, selling and delivering after sale, certain securities, and has been, directly and indirectly: (a) making use of the means and instruments of transportation and communication in interstate commerce and of the mails to sell securities, through the use of written contracts, offering documents and otherwise; (b) carrying and causing to be carried through the mails and in interstate commerce by the means and instruments of transportation, such securities for the purpose of sale and for delivery after sale; and (c) making use of the means or instruments of transportation and communication in interstate commerce and of the mails to offer to sell such securities.

28. As described in paragraphs 1 through 15, Defendants' securities were offered and sold to the public through a general solicitation of investors. No registration statements were ever filed with the Commission or otherwise in effect with respect to these securities.

29. By reason of the foregoing, Hill and MHI violated and, unless enjoined, will continue to violate Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§77e(a) and 77e(c)].

FOURTH CLAIM
Claim Against the Relief Defendant As Custodian of Investor Funds

30. Plaintiff Commission repeats and incorporates paragraphs 1 through 15 of this Complaint by reference as if set forth *verbatim*.

31. Relief Defendant Stalwart Financial received funds and property from one or more of the Defendants, which are the proceeds, or are traceable to the proceeds, of the unlawful activities of Defendants, as alleged in paragraphs 1 through 15, above.

32. Stalwart Financial obtained the funds and property alleged above as part of and in furtherance of the securities violations alleged in paragraphs 1 through 15 and under circumstances in which it is not just, equitable or conscionable for it to retain the funds and property. As a consequence, Stalwart Financial has been unjustly enriched.

RELIEF REQUESTED

The Commission seeks the following relief:

33. On an interim basis, the Commission requests that a Receiver be appointed to take control of the assets of Michael Earl Hill, Mike Hill, Inc. and Stalwart Financial Investments, L.L.C., to marshal and preserve their assets for the benefit of Hill's defrauded investors.

34. A Temporary Restraining Order restraining Hill and MHI from continuing violations of Sections 5(a), 5(c) and 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

35. A Preliminary Injunction against Hill and MHI enjoining them from further violations of the federal securities laws and specifically enjoining Hill and MHI from continuing violations of Sections 5(a), 5(c) and 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

36. A Permanent Injunction against Hill and MHI enjoining them from further violations of the federal securities laws and specifically enjoining Hill and MHI from continuing violations of Sections 5(a), 5(c) and 17(a) of the Securities Act and Sections 10(b) of the Exchange Act and Rule 10b-5 thereunder.

37. A full and accurate accounting and an interim asset freeze of all assets of Defendants until a full and accurate accounting can be made of all investor monies raised in this scheme and a determination made as to the disposition of those assets.

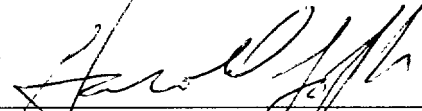
38. A full and accurate accounting and an interim asset freeze of all accounts of Relief Defendant to which investor funds were transferred and all assets held by Relief Defendant acquired with investor funds as alleged herein.

39. Disgorgement of all illicit profits and benefits plus prejudgment interest realized by Defendants and all investor monies obtained by Relief Defendant, plus prejudgment interest, as a result of participation in or attributable to the scheme alleged herein.

40. A civil monetary penalty against Hill and MHI as provided by statute and determined by the Court to be just and proper.

41. Such other and further relief as the Commission may show itself entitled.

Respectfully submitted,



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