

UNITED STATES DISTRICT COURT
DISTRICT OF RHODE ISLAND

_____)	
SECURITIES AND EXCHANGE)	
COMMISSION,)	
)	
Plaintiff,)	Civil Action No.
)	
v.)	
)	
ONLINE-REGISTRIES, INC., and)	JURY TRIAL DEMANDED
DAVID G. STERN,)	
)	
Defendants,)	
)	
and)	
)	
MICHELE RITTER,)	
)	
Relief Defendant.)	
_____)	

COMPLAINT

Plaintiff Securities and Exchange Commission (the “Commission”) alleges the following against defendants Online-Registries, Inc. d/b/a Online Medical Registries (“OMR”) and David G. Stern (“Stern”) (collectively, “Defendants”) and relief defendant Michele Ritter (“Ritter”):

SUMMARY

1. This case involves false and misleading statements made by David G. Stern to multiple individuals in connection with their purchase of stock in the company he founded, OMR. OMR purports to offer a web-based service that allows its subscribers to store, organize, and disseminate to authorized recipients, their confidential medical information. Stern, a convicted felon, made misrepresentations that enticed at least 10 individuals to purchase shares in OMR for a total purchase price of approximately \$170,000. Stern’s misrepresentations related

to the number of subscribers to OMR's service, the status of the technology supporting the product that OMR sells, the value of OMR and its shares, and his personal background. OMR has little, if any, ongoing business operation, and Stern has misappropriated substantially all of the investors' funds for his personal use.

2. By engaging in the conduct alleged herein, Defendants violated Section 17(a) of the Securities Act of 1933 ("Securities Act"), Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder.

3. Based on these violations, the Commission seeks: (1) entry of a permanent injunction prohibiting Defendants from further violations of the relevant provisions of the federal securities laws; (2) disgorgement of Defendants' ill-gotten gains, plus pre-judgment interest; (3) disgorgement by the Relief Defendant of all unjust enrichment and/or ill-gotten gain received from Defendants, plus prejudgment interest; and (4) the imposition of a civil monetary penalty due to the egregious nature of Defendants' violations. In addition, because of the risk that Defendants will continue violating the federal securities laws and the danger that any remaining investor funds will be dissipated or concealed before entry of a final judgment, the Commission seeks preliminary equitable relief, to wit a temporary restraining order and upon notice a preliminary injunction, to: (1) prohibit Defendants from continuing to violate the relevant provisions of the federal securities laws; (2) freeze Defendants' assets and otherwise maintain the status quo; (3) require Defendants to submit an accounting of investor funds and other assets in their possession; (4) require Defendants to repatriate assets that were transferred outside of the United States and were obtained from investors; (5) prohibit Defendants from soliciting or accepting additional investments; (6) prevent Defendants from destroying relevant documents; and (7) authorize the Commission to undertake expedited discovery.

JURISDICTION AND VENUE

4. The Commission brings this action pursuant to the enforcement authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. §77t(b)] and Section 21(d) of the Exchange Act [15 U.S.C. §§78u(d)]. This Court has jurisdiction over this action pursuant to 28 U.S.C. §1331, Section 22(a) of the Securities Act [15 U.S.C. §77v(a)], and Sections 21(d) and (e) and 27 of the Exchange Act [15 U.S.C. §§78u(e) and 78aa].

5. Venue is proper in this district pursuant to 28 U.S.C. §1391(b)(2), Section 22(a) of the Securities Act [15 U.S.C. §77v(a)], and Section 27 of the Exchange Act [15 U.S.C. §78aa] because a substantial part of the acts constituting the alleged violations occurred in the District of Rhode Island and because Stern and Ritter live in Rhode Island and the principal place of business of OMR is Rhode Island.

6. In connection with the conduct alleged in this Complaint, Defendants directly or indirectly made use of the means or instruments of transportation or communication in interstate commerce, the facilities of a national securities exchange, or the mails.

7. Defendants' conduct involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss, or significant risk of substantial loss, to other persons.

8. Unless enjoined, Defendants will continue to engage in the securities law violations alleged herein, or in similar conduct that would violate the federal securities laws.

DEFENDANTS

9. OMR is a Delaware corporation with a primary place of business at 360 Thames St., Newport, Rhode Island 02840. OMR purports to offer a web-based service that allows its

subscribers to store, organize and disseminate to authorized recipients their confidential medical information.

10. David G. Stern, age 64, lives in Newport, Rhode Island. In April 2002, Stern was convicted of mail fraud and wire fraud in the District of Massachusetts. His crime involved soliciting client funds for investment and then using those funds for his personal benefit. He served more than two years in prison, from January 2003 through March 2005, for these offenses. In 1997, Stern was also disbarred from practicing law in Massachusetts after he was found to have breached his fiduciary duty as the trustee of a trust established by his clients. Stern transferred more than \$3.5 million in trust assets to a company in which he had an interest, and also used trust assets for his own personal benefit.

RELIEF DEFENDANT

11. Michele Ritter, age 56, lives in Newport, Rhode Island in a home that she shares with Defendant Stern.

FACTUAL ALLEGATIONS

A. Stern's Fraudulent Solicitation of Investments in OMR

12. By 2006, Stern had begun soliciting individuals to invest in OMR. Stern told potential investors that OMR had developed a technology that would revolutionize the dissemination of medical information in emergencies and at other critical times. He said that subscribers to OMR's web-based service would be able to provide emergency room doctors and other medical professionals with instant access to subscribers' digitally stored medical information.

13. Stern told potential investors that OMR had thousands of subscribers. In at least one instance in March of 2010, he told two potential investors that OMR had approximately

18,000 subscribers, and that OMR had a high rate of subscriber retention. This representation was false. At no time has OMR had more than several dozen subscribers.

14. Stern also told an investor, in 2005, that OMR had successfully beta tested its technology with a major hospital in Rhode Island. Stern made the same representation to two other investors in March 2010. The technology that Stern said was tested was the foundation of the service that OMR planned to sell. This representation was also false, as no beta test occurred.

15. Stern also told potential investors in both 2008 and 2010 that the value of OMR and its stock would substantially increase when OMR “partnered” with Google Health. He represented to one potential investor in March 2010 that the launch of the partnership would occur in April 2010, and that OMR would then be worth \$100 million. He told another potential investor, in the spring of 2008, that OMR’s stock would be worth six or seven times its purchase price once the Google Health partnership was established.

16. While OMR signed an agreement with Google Health in April 2010 that permitted OMR to develop an interface with Google Health’s databases, Stern’s descriptions of the significance of that contract were misleading. OMR filled out a generic web-based application on Google Health’s website to become a third party service provider to Google Health. Google Health accepted OMR’s application. The contract, in essence, permitted OMR to develop an application that could be purchased by existing users of Google Health. The agreement was not negotiated, it did not provide for payments by Google Health to OMR, or by OMR to Google Health, and it did not obligate Google Health to do anything to promote or advertise OMR’s service. Dozens of other companies also filled out the same application and entered into the same type of relationship with Google Health. Stern’s statements to OMR

investors that OMR's partnership with Google Health would immediately and significantly increase the value of the company were thus misleading.

17. Stern did not inform investors about his disbarment and his criminal conviction, both of which involved financial fraud. When investors independently learned of his criminal conviction and that he was reported to have been involved in misconduct involving money, Stern lied to them. He told one investor that the court had found him innocent of wrongdoing. Another investor stopped payment on the check that he had written to purchase OMR shares when he learned of Stern's misconduct. That investor only decided to write another check to purchase shares in OMR after being shown documents that Stern claimed were proof that he had been exonerated.

18. All of Stern's misrepresentations to investors described in paragraphs 13 through 17 above were material and investors considered these statements important when they decided to invest in OMR.

B. Misuse of Investors' Funds

19. Since mid-2008, OMR has obtained approximately \$170,000 from at least 10 investors who purchased OMR shares. Investors paid for their shares using checks that were deposited to OMR's bank account, which Stern controlled.

20. By the end of September 2010, virtually all of the proceeds of those investments had been withdrawn from OMR's bank account. Only approximately \$274.00 remained.

21. Of the approximately \$170,000 that Stern obtained from investors, Stern appropriated \$68,100 of that sum by writing checks payable to himself, and another \$29,500 by writing checks payable to relief defendant Ritter.

22. Investors in OMR purchased at least \$50,000 in OMR shares between June 1 and June 15, 2010. Within a few weeks, by mid-July, Stern had written 7 checks, totaling \$28,500, that were made payable to himself. In the same time frame, Stern also wrote 6 checks, totaling \$12,500, that were made payable to relief defendant Ritter. Many additional point of sale withdrawals from the bank account were made at restaurants and gas stations.

23. Thus, Stern promptly transferred at least \$41,000 of the \$50,000 that was invested in OMR in June 2010 to himself and to the Relief Defendant

24. The personal relationship between Stern and Relief Defendant Ritter and the July 2010 transfers indicate diversion and misuse of the OMR investors' funds.

25. Since July 2010, all of the sales employees who had been hired in the spring and early summer of 2010 to sell OMR's products have left the company.

First Claim for Relief
(Violation of Section 17(a) of Securities Act By Defendants)

26. The Commission repeats and incorporates by reference the allegations in paragraphs 1 through 25 above as if set forth fully herein.

27. Defendants, directly or indirectly, acting intentionally, knowingly or recklessly, by use of the means or instruments of transportation or communication in interstate commerce or by the use of the mails, in the offer or sale of securities: (a) have employed or are employing devices, schemes, or artifices to defraud; (b) have obtained or are obtaining money or property by means of untrue statements of material fact or omissions to state a material fact necessary to make the statements not misleading; or (c) have engaged or are engaging in transactions, practices, or courses of business which operated as a fraud or deceit upon the purchasers of such securities.

28. By engaging in the conduct described above, Defendants have violated, and

unless enjoined will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. §77q(a)].

Second Claim for Relief
(Violation of Section 10(b) of Exchange Act and Rule 10b-5 By Defendants)

29. The Commission repeats and incorporates by reference the allegations in paragraphs 1 through 25 above as if set forth fully herein.

30. Defendants, directly or indirectly, acting intentionally, knowingly or recklessly, in connection with the purchase or sale of securities, by use of the means or instrumentalities of interstate commerce or the facilities of a national securities exchange or the mail: (a) have employed or are employing devices, schemes, or artifices to defraud; (b) have made or are making untrue statements of material fact or have omitted or are omitting to state material fact(s) necessary to make the statements made not misleading; or (c) have engaged or are engaging in acts, practices, or courses of business which operate as a fraud or deceit upon certain persons.

31. By engaging in the conduct described above, Defendants have violated, and unless enjoined will continue to violate, 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].

Third Claim for Relief
**(Other Equitable Relief, Including Unjust Enrichment and Constructive Trust,
Against Relief Defendant)**

32. The Commission repeats and incorporates by reference the allegations in paragraphs 1 through 25 above as if set forth fully herein.

33. Section 21(d)(5) of the Exchange Act states: “In any action or proceeding brought or instituted by the Commission under any provision of the securities laws, the Commission may seek, and any Federal court may grant, any equitable relief that may be appropriate or necessary for the benefit of investors.”

34. The Relief Defendant has received investor funds under circumstances dictating that, in equity and good conscience, she should not be allowed to retain such funds.

35. Further, specific property acquired by the Relief Defendant is traceable to Defendants' wrongful acts and there is no reason in equity why the Relief Defendant should be entitled to retain that property.

36. As a result, the Relief Defendant is liable for unjust enrichment and should be required to return her ill-gotten gains, in an amount to be determined by the Court. The Court should also impose a constructive trust on property in the possession of Relief Defendant that is traceable to Defendants' wrongful acts.

PRAYER FOR RELIEF

WHEREFORE, the Commission requests that this Court:

A. Enter a preliminary injunction, order freezing assets, and order for other equitable relief in the form submitted with the Commission's *ex parte* motion for such relief, and, upon further motion, enter a comparable preliminary injunction, order freezing assets, and order for other equitable relief;

B. Enter a permanent injunction restraining Defendants and each of their agents, servants, employees and attorneys and those persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, including facsimile transmission or overnight delivery service, from directly or indirectly engaging in the conduct described above, or in conduct of similar purport and effect, in violation of Section 17(a) of the Securities Act [15 U.S.C. §77q(a)]; and 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];

C. Require Defendants to disgorge their ill-gotten gains and losses avoided, plus pre-judgment interest, with said monies to be distributed in accordance with a plan of distribution to be ordered by the Court;

D. Require the Relief Defendant to disgorge all unjust enrichment and/or ill-gotten gain received from Defendants, plus prejudgment interest, with said moneys to be distributed in accordance with a plan of distribution to be ordered by the Court;

E. Require Defendants to pay appropriate civil monetary penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. §77t(d)] and Section 21(d)(3) of the Securities Exchange Act [15 U.S.C. §78u(d)(3)];

F. Retain jurisdiction over this action to implement and carry out the terms of all orders and decrees that may be entered; and

G. Grant such other and further relief as the Court deems just and proper.

JURY DEMAND

The Commission hereby demands a trial by jury on all claims so triable.

Respectfully submitted,

SECURITIES AND EXCHANGE COMMISSION

By its attorneys,

Kathleen Burdette Shields (Mass. Bar No. 637438)
Mayeti Gametchu (Mass. Bar No. 647787)
33 Arch Street, 23rd Floor
Boston, Massachusetts 02110
Telephone: (617) 573-8904 (Shields direct)
Facsimile: (617) 573-4590
E-mail: shieldska@sec.gov

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