

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.

CONSENT ORDER

A. Nature of the Case

1. In 2003, Greg Carter, Sr., Greg Carter, Jr., and their corporation, Son and Carter, Inc. 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 assist in the generation of electricity. Son and Carter through its agent Frank Scott stated that the generation of electricity was sufficient to fulfill the needs of Springfield, Missouri and that Son and Carter had contracts pending with the military and that Homeland Security was going to use these torches. Scott 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 Scott 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."
2. Respondents SCI, Carter, Sr., and Carter, Jr. desire to settle the allegations and the matters raised by the Securities Division relating to Respondents SCI, Carter, Sr. and Carter, Jr.'s alleged violations of the securities act.
3. Respondents SCI, Carter, Sr., Carter, Jr. and the Securities Division consent to the issuance of this Consent Order.
4. Respondents SCI, Carter, Sr. and Carter, Jr. contend that Scott's activities were ultra vires and beyond the scope of his authority without admitting or denying they violated Missouri law, stipulate and agree to the issuance of this Consent Order without further proceedings in this matter, agreeing to be fully bound by the terms and conditions specified herein.
5. Respondents SCI, Carter, Sr. and Carter, Jr. waive their rights to a hearing with respect to this matter.
6. Respondents SCI, Carter, Sr. and Carter, Jr. stipulate and agree that they waive any rights that they may have to seek judicial review or otherwise challenge or contest the terms and conditions of this Order. Further, Respondents SCI, Carter, Sr. and Carter, Jr. specifically forever release and hold harmless the Missouri Office of Secretary of State, Secretary of State, Commissioner of Securities and their respective representatives and agents from any and all liability and claims arising out of, pertaining to or relating to this matter.
7. Respondents SCI, Carter, Sr. and Carter, Jr. stipulate and agree that, should the facts contained herein prove to be false or incomplete, the Missouri Securities Division reserves the right to pursue any and all legal or administrative remedies at its disposal.

STIPULATIONS OF FACT

B. Respondents SCI, Carter, Sr. and Carter, Jr.

8. 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.
9. 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.
10. 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.
11. 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 4983 Delfin Lane, Joplin, Missouri 64804.

C. Other Relevant Entities and Individuals

12. Scott formed the following companies:
- a. 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;
 - b. American Energy Research (“AER”) Corporation was incorporated in Missouri on or about July 11, 2003. AER was administratively dissolved on June 24, 2004;
 - c. Pyrotechnic Tool Corporation, a/k/a Pyrotecnic Tool Company (“PTC”) is a Missouri Corporation incorporated on July 11, 2003. PTC was administratively dissolved on June 24, 2004;
 - d. 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;
 - e. 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.
13. 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

14. 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.
15. 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.
16. 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.
17. Scott arranged for MR to attend a demonstration of the cutting torch which took place in Springfield, Missouri on July 18, 2003.
18. On July 18, 2003, MR attended the demonstration and was told by an agent of Son & Carter 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.

19. 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.
20. Sometime after July 23, 2003, MR received a certificate for 100 shares of stock in SCI, dated July 23, 2003.

E. Respondents' Violative Conduct

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 abandoned and therefore never issued.
24. 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.
25. 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.
26. 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.
27. 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. Specifications and other technical information disclosing how the proposed energy plant was to work, and where it was tested;
 - b. All of the risks involved with the investment; and
 - c. Material contracts or relationships with third parties, including but not limited to contracts allegedly pending with the Military and Homeland Security.
28. 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.
29. An Order is in the public interest.

JURISDICTIONAL BASIS

30. Respondents SCI, Carter, Sr., and Carter, Jr. and the Securities Division stipulate and agree that the Commissioner has jurisdiction over these matters pursuant to Chapter 409, RSMo.
31. Respondents SCI, Carter, Sr., and Carter, Jr. and the Securities Division stipulate and agree that the Commissioner has authority to enter this Consent Order pursuant to Section 409.407, RSMo, which provides that whenever it shall appear to the commissioner that any person in connection with the purchase or sale of any security is acting or about to act fraudulently and if the commissioner deems it in the public interest the commissioner shall have full power to issue such orders as he deems just.

ORDER

WHEREAS, the Commissioner, after consideration of the stipulations set forth above and on the consent of Respondents SCI, Carter, Sr., and Carter, Jr. and the Securities Division, finds the following Order to be in the public interest and necessary for the protection of public investors and consistent with the provisions of Chapter 409.

NOW, THEREFORE, it is hereby Ordered that:

1. Respondents SCI, Carter, Sr., and Carter, Jr. are ORDERED TO CEASE AND DESIST ALL SALES OF SECURITIES IN SON & CARTER INC. IN THE STATE OF MISSOURI and this ORDER IS FINAL.
2. Respondents SCI, Carter, Sr., and Carter, Jr., their agents, employees and servants are prohibited from:
 - a. Violating § 409.3-301, RSMo Supp. 2005, by offering or selling securities in Missouri without registering or qualifying for an applicable exemption; and
 - b. Violating § 409.5-501, RSMo Supp. 2005, by making untrue statements of material fact or omitting to state a material fact in connection with the offer or sale of a security.
3. All net monies after related fees received by the company in the future, from any source, will be disbursed within 30 days of receipt as follows:
 - a. First to repay all investors' principal as detailed in Exhibit 1, if the funds received are insufficient to pay the total amount due to these investors, then the investors will be paid on a pro rata basis. Any subsequent funds will be paid in the same manner until the investors are paid in full.
 - b. If there are funds left after all investors listed in Exhibit 1 have been paid their principal in full, then any funds received will be used to pay each investor interest at a rate of 8% per year from the date of investment, if there are insufficient funds to pay the total interest due to all investors listed in Exhibit 1 then these investors will be paid this interest on a pro rata basis. Any subsequent funds received will be paid in the same manner until all interest is paid in full.
 - c. If there are funds left after payment of this interest in full to all investors; then Respondents SCI, Carter, Sr., and Carter, Jr. are ordered to pay fifty thousand dollars (\$50,000) to the Missouri Secretary of State's Investor Education and Protection Fund. Respondents SCI, Carter, Sr., and Carter, Jr. shall deliver payment to the Division of Securities, 600 W. Main Street, Jefferson City, Missouri 65102;
 - d. All remaining funds will be the property of the entity and its shareholders.
4. Respondents SCI, Carter, Sr., and Carter, Jr. shall file documentation with the Securities Division evidencing the names of the investors who were paid, the amount of principal and interest paid, and the date the payment was sent to the investor. This documentation shall be filed with the Securities Division within 30 days of any payment and shall be in the form of an affidavit, with all supporting documents attached thereto.
5. Respondents SCI, Carter, Sr., and Carter, Jr. will pay the costs of investigation in this matter in the amount of Sixteen Hundred Dollars (\$1,600) as their portion of the costs. This amount will be suspended provided that Respondents do not violate Paragraph 1 of the Order section of this Order during the next two years.
6. In the event that Respondents SCI, Carter, Sr., and Carter, Jr. violate Paragraph 1 of the Order section of this Order, in the two years following the date of this Order, the suspended \$1,600 payment shall be immediately payable, and the Securities Division will be able to take all enforcement action available to it under Missouri law.
7. Respondents SCI, Carter, Sr., and Carter, Jr. will pay their own costs and attorneys fees with respect to this matter.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY, MISSOURI THIS 22nd DAY OF SEPTEMBER, 2006.

ROBIN CARNAHAN
SECRETARY OF STATE

(Signed/Sealed)
MATTHEW D. KITZI
COMMISSIONER OF SECURITIES

Consented to by:

Missouri Securities Division

Mary S. Hosmer
Assistant Commissioner of Securities

Greg Carter, Jr. individually and as president
of Son & Carter, Inc.

Greg Carter, Sr.

Approved as to Form

Don Mehan
Counsel for Respondents SCI, Carter, Sr.,
and Carter, Jr.