

IN THE CIRCUIT COURT OF PULASKI COUNTY, ARKANSAS
CIVIL DIVISION

A. HEATH ABSHURE, ARKANSAS SECURITIES COMMISSIONER

Plaintiff,

CV09- 5346-6

Case No. CV2009-_____

v.

CLEAN TECHNOLOGY INTERNATIONAL
CORPORATION; DIAMOND CAPITAL
CORPORATION; WILLIAM DARRELL LAINHART,
INDIVIDUALLY, AND AS TRUSTEE OF
CAPITAL HERITAGE IRREVOCABLE TRUST AND
CAPITAL HERITAGE REVOCABLE TRUST;
IRENE M. F. LAINHART; REX ROBERTSON;
AND JAMES STEAD, JR.

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Pat O'Brien Pulaski Circuit Clerk
CRO7

Defendants

and

CAPITAL HERITAGE IRREVOCABLE TRUST AND
CAPITAL HERITAGE REVOCABLE TRUST

Relief Defendants

COMPLAINT FOR PERMANENT INJUNCTION
AND OTHER EQUITABLE RELIEF

COMES NOW the Plaintiff, A. Heath Abshure, Commissioner, (Commissioner), and for his
claims against the above named defendants, alleges and states as follows:

OVERVIEW

1. This case involves violations of the Arkansas Securities Act (Act), Ark. Code Ann. §§ 23-42-101
et seq. (Repl. 2000), by Clean Technology International Corporation, Diamond Capital
Corporation, William Darrell Lainhart, Irene M. F. Lainhart, Rex Robertson and James Stead,
Jr. Specifically, the Commissioner alleges the defendants offered and sold unregistered
securities in violation of Ark. Code Ann. § 23-42-501 (Repl. 2000), failed to register as agents
and/or employed unregistered agents in violation of Ark. Code Ann. § 23-42-301 (Repl. 2000),
and/or perpetrated fraud in connection with the offer, sale or purchase of securities in violation

of Ark. Code Ann. § 23-42-507 (Repl. 2000).

2. Beginning sometime in 1993, the defendants offered and sold unregistered securities in the form of common stock of Clean Technology International Corporation (CTIC) without being registered to do so pursuant to the Act by means of securities fraud. Securities fraud has been committed in the form of positive misstatements of fact and omissions of material fact. The stock in question has never been registered in accordance with the Act. None of the defendants has been registered pursuant to the Act to offer or sell securities in or from Arkansas.
3. The scope of these violations is large. Taking information from various records, including bank records and accounting records of the various corporations involved, the staff of the Arkansas Securities Department (Staff) has stitched together a range of what has occurred: excluding stock owned by CTIC insiders, among whom number all but the last three named defendants, the sale of some forty-five to fifty million shares of CTIC common stock for some \$12.8 million in cash. In order for the remedies sought herein to be effective, a more accurate accounting is needed, but can only be provided by a more in depth and wide ranging investigation and analysis, the kind that can only be provided by a receivership.

JURISDICTION & VENUE

4. The Commissioner brings this action pursuant to Ark. Code Ann. § 23-42-209 (Repl. 2000), which permits the Commissioner to seek injunctive relief and relief ancillary to injunctive relief as may be appropriate in the public interest, including but not limited to obtaining an accounting, receivership, disgorgement and the assessment of a fine. The Commissioner is the proper party to bring this action.
5. The Commissioner may bring actions for injunctive relief and ancillary relief in Pulaski County Circuit Court as per Ark. Code Ann. § 23-42-209(a)(3) and (b) (Repl. 2000) and Ark. Const., amend. 80.

6. Defendants, in connection with their activities in the offer and sale of unregistered securities in and from Arkansas while being unregistered to do so by means of securities fraud, are subject to the provisions of the Act. They are therefore subject to the jurisdiction of this Court and to service of summons within or outside of this state.

DEFENDANTS

7. Clean Technology International Corporation (CTIC) is a corporation organized and existing under the laws of Nevada, with its principal place of business located at 72 Shoshoni Drive, Sherwood, Arkansas 72120. Upon information and belief, William Darrell Lainhart and Irene M. F. Lainhart, through their ownership and control of Diamond Capitol Corporation and Capital Heritage Irrevocable Trust, own over 80% of the stock of CTIC.
8. Diamond Capital Corporation (DCC) is a subchapter S corporation organized in 1986 and existing under the laws of Arkansas with its principal place of business located at 72 Shoshoni Drive, Sherwood, Arkansas 72120. Upon information and belief, the sole shareholder of DCC is Irene M. F. Lainhart.
9. William Darrell Lainhart (D. Lainhart) is the chief executive officer, president and managing consultant of CTIC. He is also the trustee for Capital Heritage Irrevocable Trust and Capital Heritage Revocable Trust, the relief defendants. D. Lainhart is married to Irene M. F. Lainhart and resides at 72 Shoshoni Drive, Sherwood, Arkansas 72120.
10. Irene M. F. Lainhart (I. Lainhart), a/k/a Mattie Lainhart, is the sole shareholder and former president of DCC and the former president and chief executive officer of CTIC. I. Lainhart is married to D. Lainhart and resides at 72 Shoshoni Drive, Sherwood, Arkansas 72120.
11. Rex Robertson is a resident of Arkansas who resides at 281 River Ridge Point, Little Rock, Arkansas 72227.
12. James Stead, Jr. is an agent of Birkelbach Investment Securities, Inc., a broker-dealer in Chicago,

Illinois. Stead resides at 1005 Hickory Ridge Court, Frankfort, Illinois 60423.

RELIEF DEFENDANTS

13. Capital Heritage Irrevocable Trust (CHIT) is an irrevocable trust established under Arkansas law in Pulaski County, Arkansas on August 3, 1997, by I. Lainhart. The trustee of CHIT is D. Lainhart. Upon information and belief, CHIT has received money, securities—including CTIC stock— and other property from the defendants, DCC, D. Lainhart and/or I. Lainhart.
14. Capital Heritage Revocable Trust (CHRT), upon information and belief, is a revocable trust established under Arkansas law in Pulaski County, Arkansas sometime in 2006 or before. The trustee of CHRT is D. Lainhart. Upon information and belief, CHRT has received property, including real property, from the defendants, DCC, D. Lainhart and/or I. Lainhart.

OTHER RELEVANT ENTITY

15. Diamond Capital Corporation of Texas (DCC-TX) was incorporated in Texas by D. Lainhart and/or I. Lainhart in 1998. In August 2000, its charter was forfeited administratively and never revived. Nevertheless, bank accounts in DCC-TX's name were maintained well past the date of dissolution and were active until some time in 2003.

NATURE OF THE CASE

16. CTIC was originally incorporated in Texas in 1993. D. Lainhart and I. Lainhart, through DCC, were part owners of CTIC from its incorporation. D. Lainhart and I. Lainhart became the majority owner through DCC in June 1998, after the settlement of a lawsuit filed against former management and another part owner of CTIC. On December 31, 2001, what is now CTIC was incorporated in Nevada and merged with the Texas corporation, the Nevada corporation surviving. A 3 for 1 stock split was effected in this merger, resulting in those holding shares of stock in the Texas corporation receiving three shares of the surviving Nevada corporation for each share of the Texas corporation.

17. CTIC was touted as a company developing two new and innovative technologies. The first new technology was a process to dispose of hazardous waste with the use of a molten aluminum bath. The second new technology was actually a byproduct of the first. CTIC discovered that the waste disposal process also produced spherical carbon nano chains (carbon nano material). D. Lainhart and others representing CTIC have stated to prospective investors that CTIC holds and/or is applying for many patents on these technologies.
18. An initial public offering (IPO) of CTIC stock was never made, and CTIC stock was never listed on any stock exchange. Nevertheless, D. Lainhart, acting as an agent for DCC, sold shares of CTIC stock to individuals throughout the years by means of material misstatements of fact and omissions of material fact. Further, the stock was neither registered in accordance with the Act, nor exempt from registration.
19. D. Lainhart sold CTIC stock in two ways, to wit:
- a. D. Lainhart sold CTIC shares that had been issued to DCC or DCC-TX. These shares were issued to DCC or DCC-TX and the stock certificates he sold were made out to DCC or DCC-TX. He and I. Lainhart effected the sale when I. Lainhart, acting as president and sole owner of DCC, or D. Lainhart, acting as an officer of DCC or DCC-TX, executed the stock power set out on the back of each stock certificate or in a separate document. There was no attempt to comply with the registration requirements of the Act in this instance. Usually, but not always, CTIC would issue a stock certificate to the investor in the investor's name, replacing the certificate issued to DCC or DCC-TX .
 - b. Secoond, D. Lainhart sold stock directly from CTIC to investors, usually, but not always resulting in the investor's receiving stock certificates from CTIC issued in the investor's name.
20. D. Lainhart sold stock by means of material misstatements of fact that would fall into four broad

categories, to wit:

- a. STATEMENTS THAT AN IPO WAS IMMINENT, USUALLY WITHIN THIRTY TO SIXTY DAYS, BUT SOMETIMES AS FAR OFF AS SIX MONTHS OR A YEAR TO YEAR AND ONE-HALF. D. Lainhart would make these statements more believable by stating that well known broker-dealers were going to handle the IPO. These firms included Merrill Lynch, Morgan Stanley and Morgan Keegan. D. Lainhart also told at least one investor that a Chicago law firm was about to start working on the IPO.
- b. STATEMENTS THAT ONCE THE IPO OCCURRED, THE STOCK'S PRICE WOULD BECOME WORTH MUCH, MUCH MORE MONEY. Stock was sold for \$.67 to \$5 per share. D. Lainhart would tell prospective investors that the stock would open in the IPO for \$25 and go up to \$100 to \$200 per share shortly after opening. These price and profit projections were baseless.
- c. STATEMENTS THAT CTIC HAD CONTRACTS FOR THE USE OF ONE OF THE TWO PROPRIETARY TECHNOLOGIES WITH VARIOUS COMPANIES OR GOVERNMENT ENTITIES. These companies, agencies and government entities included Alcoa, LG Electronics, Samsung, EADS (the parent company of Airbus), Boeing, Pinnacle Armor, Motorola, Shell Oil, the U.S. Army, the U.S. Air Force, the Department of Defense and the Department of Energy. D. Lainhart made these statements more credible by further stating to some investors that he was working with various governmental officials, including the governors of Nevada, Ohio and Florida, an Ohio congressman and even officials in the White House. Although CTIC did, indeed, have contracts with some companies and government agencies allowing them to do testing on CTIC's carbon nano material, there were no sales or services contracts that would result in income to CTIC, which is what D. Lainhart implied when he told investors that CTIC had these contracts.
- d. STATEMENTS THAT THE MONEY INVESTORS WERE PAYING FOR THE CTIC STOCK WAS GOING

TO BE USED TO DEVELOP CTIC AND ITS PRODUCTS AND, THUS, FURTHER CTIC'S PROSPECTS FOR PROFITABILITY. These statements included representations that investment funds were going to be used to pay accountants and attorneys to prepare an IPO and representations that the funds were to be used to develop the technologies CTIC owned. In regard to the development of the technology, D. Lainhart represented to investors that the funds would be used to build new and/or bigger machines for using the technologies, including a commercial scale, 80,000-pound capacity machine. Most of the money was used for the personal benefit of the Lainhart defendants through DCC.

- e. STATEMENTS THAT D. LAINHART WAS ACTING ON BEHALF OF CTIC. In making sales to prospective investors, D. Lainhart represented that he was the chief operating officer or president of CTIC and led prospective investors to believe that he was acting on behalf of CTIC. It was only when the prospective investors were very close to agreeing to purchase stock or actually writing checks or preparing wire transfers that they learned that the stock D. Lainhart was selling them was CTIC stock that had already been sold to DCC or DCC-TX.

21. D. Lainhart's long history in the securities business is long and marked by several instances of conduct that would be material to any prospective investors:

- a. In 1989, D. Lainhart settled a complaint that was filed by the National Association of Securities Dealers (NASD), now known as the Financial Industry Regulatory Authority (FINRA) in 1987 concerning Delta Financial Investment Corporation (Delta), a broker-dealer selling mostly municipal bonds of which D. Lainhart was the registered general securities principal and municipal securities principal, chief executive officer, president and chairman of the board. The complaint was comprised of twenty causes of action including failure to maintain a minimum amount of net capital and a securities fraud involving helping a client

hide losses, which resulted in the net capital falling below the required level. Although D. Lainhart was not personally found to have engaged in the fraudulent behavior attempting to hide a client's losses, the complaint was settled with D. Lainhart being censured, fined \$7,500 and suspended for four months from association of any NASD member in any capacity and Delta being censured, fined \$50,000 and expelled. The expulsion was the equivalent of being put out of business.

- b. On August 12, 1986, the Commissioner held D. Lainhart responsible for Delta's violation of the mark-up guidelines of the Arkansas Securities Department (Department). Delta was fined \$20,000, and D. Lainhart was sent a letter of caution.
- c. In August, 1972, D. Lainhart consented to a judgment in Topeka, Kansas, whereby he was permanently enjoined from "engaging in any fraudulent or deceptive advertising practice" and from "engaging in the business of selling securities" in violation of Kansas securities laws and without being properly registered to offer or sell securities pursuant to Kansas securities laws.

22. D. Lainhart did not disclose to the vast majority of investors his disciplinary history in the securities industry or any of the other matters concerning his past set out in ¶ 21. To the few investors to whom he did admit a past in the securities industry, he misrepresented his past, telling them that he either voluntarily exited the securities business in advance of a business downturn or recession, or, if he mentioned any disciplinary history, it was incomplete and misleading, dismissing it as unimportant and portraying himself as the victim of his employees and associates at Delta.

23. From 1991 through 2006, DCC and the Lainharts through their ownership of DCC-TX bank accounts were the recipients of over \$8 million in CTIC stock sale proceeds from the sale of shares that had been issued to DCC or DCC-TX. CTIC was the recipient of over \$4.8 million in

CTIC stock sale proceeds from the sale of shares of CTIC stock directly to investors. D. Lainhart and I. Lainhart did not disclose to investors, all of whom had been led to believe that their purchase money was invested in CTIC for the benefit of CTIC, that he and I. Lainhart would instead use investor funds paid in for CTIC stock purchases for their own purposes, paying for personal living expenses; maintenance, improvements and upkeep on both real and personal property; antique and new automobile collections; a Winnebago recreational vehicle; heavy farm and construction equipment; securities investments; and to repay indebtedness on their real property assets, including a personal residence in Sherwood, Arkansas (Lainhart Residence); a 2,400 acre parcel of land known as Little Switzerland—a property comprised of partially developed land in Hot Spring and Garland Counties, Arkansas, used for hunting and other recreational purposes and storage of the automobile collection—;an eight acre parcel of land nearby with a house on it; real property located near Malvern, Arkansas (Malvern Property); a twenty-six acre parcel of land with a home on it located at 602 Mt. Carmel Road, Hot Springs, Arkansas (Hot Springs Property); and a 9.4 acre parcel of real property near Austin, Texas, in Bee Caves, Texas, which might have been used by CTIC, but was an asset of DCC (Bee Caves Property). Some examples of the Lainharts' personal use of investor funds are as follows:

- a. During July 1998, Robertson made a purchase of CTIC stock for \$400,000, which was deposited into an attorney's trust account, from which the funds were converted to the Lainharts' personal use as follows:
 - i. \$125,000 was wired directly to I. Lainhart;
 - ii. \$50,000 was wired directly to an investment account owned by and benefitting DCC; and
 - iii. \$216,561 was used to pay off the mortgage on the Lainhart Residence.
- b. In June and July 2002, a California investor made a purchase of CTIC stock from D. Lainhart for \$475,000, of which \$375,000 was deposited into a DCC-TX bank account and was

further converted to the Lainharts' personal use as follows:

- i. \$86,883 was used to purchase one million shares of WorldCom stock;
 - ii. \$56,130 was used to purchase heavy construction equipment for use at Little Switzerland;
 - iii. \$5,720 used to make mortgage payments on the Lainhart Residence;
 - iv. \$5,000 was used to make mortgage payments on the Bee Caves Property;
 - v. \$13,000 was donated to the National Kidney Foundation at a silent auction; and
 - vi. \$12,459 was used for personal expenses.
- c. In March 2002, several investors made a purchase of CTIC stock from D. Lainhart for \$175,000, which was deposited into a DCC-TX bank account and was further converted to the Lainharts' use as follows:
- i. \$69,135 was used to pay Lender's Title for costs associated with the purchase of Little Switzerland; and
 - ii. \$8,660 was used to purchase heavy farm equipment.
- d. On August 20, 2002, Robertson made a purchase of CTIC stock from D. Lainhart for \$40,000, all of which was converted to the use of the Lainharts by the use of that money to purchase of a 1930 Model A Ford and a 1936 F100 Ford pickup truck for \$49,324;
- e. In January, 2003, \$125,000 of investor funds paid in for the purchase of CTIC stock were converted to the use of the Lainharts as follows:
- i. \$50,000 in mortgage payments on Little Switzerland; and
 - ii. \$55,482 in mortgage payments on the Lainhart Residence.
- f. In March, 2003, two investors made a purchase of CTIC stock for \$250,000, all of which was converted to the Lainharts' use by the purchase of \$250,000 of promissory notes in the name of DCC.

24. D. Lainhart did not disclose to investors who purchased from him after 2003 the personal use of investor funds noted in ¶ 23, immediately above.
25. D. Lainhart did not disclose to investors that the Lainharts' only sources of income were loans made to DCC, D. Lainhart and/or I. Lainhart and the sale of CTIC stock, proceeds of which were converted to the use of the Lainharts and used to make payments on the loans.
26. D. Lainhart did not disclose to investors who he told their money would be used to develop CTIC's products and business that much money used for CTIC business expenses came from other sources and that CTIC is indebted for those expenses now. Three examples of CTIC expenses being paid for by others follow:
- a. D. Lainhart told investors that their funds would be used on the machines that used CTIC's technology. This included the construction of new and/or bigger machines for using the technologies, including a commercial scale, 80,000-pound capacity machine, that D. Lainhart and I. Lainhart would instead let one investor, Jim Carroll of Houston, Texas, through his companies, Southwest Heat Treat, Inc., and Black Diamond Materials, LLC, expend over \$2 million in CTIC's behalf by retrofitting, repairing and maintaining several existing smaller machines and building a new commercial scale machine with an 80,000-pound capacity with no payment of Carroll's expenses from CTIC.
 - b. D. Lainhart told some investors that CTIC had an office in Cincinnati, Ohio. There was, indeed, a telephone line dedicated to CTIC in the offices of a business owned by one investor, John Sawyer. Mr. Sawyer advanced \$50,000 as capital for this office and paid \$550,573 on the salaries of these three employees. CTIC's rent on the facility, which remains unpaid, comes to \$30,000.
 - c. Mr. Sawyer advanced D. Lainhart \$248,134 for five vehicles for CTIC, which remains unpaid.

27. Robertson purchased approximately 3,645,000 shares of CTIC common stock between 1998 and 2007 through his company, River Ridge Investments, Inc. Robertson then sold much of the stock he purchased to third parties, making some of the same misstatements and material omissions D. Lainhart had made to investors set out in ¶¶ 20 through 26, above. Robertson was not registered to offer or sell securities in or from Arkansas, and the CTIC stock he sold was not registered or exempt from registration in accordance with the Act.
28. Stead, although registered as an agent of a registered broker-dealer in Chicago, Illinois, was not registered with the Department in accordance with the Act. He sold CTIC stock primarily in the Chicago area as an agent of CTIC off the books of his employer, indirectly receiving commissions from CTIC for each sale. In selling CTIC stock to others, Stead made some of the same misstatements and material omissions D. Lainhart made to him and others to whom he offered and sold CTIC stock set out in ¶¶ 20 through 26, above.
29. Upon information and belief, the plaintiff alleges that the defendants are attempting to sell some of the real property investor funds were used to purchase, as set out in ¶ 23.

FIRST CAUSE OF ACTION

Violation of Ark. Code Ann. § 23-42-501 (Repl. 2000) Offering and/or Selling Unregistered Securities

30. Plaintiff realleges and incorporates by reference each and every allegation contained in ¶¶ 1 through 29 above.
31. The investments were securities, specifically stock, as defined in Ark. Code Ann. § 23-42-102(15) (Repl. 2000).
32. The securities offered and sold by the defendants, directly or indirectly, personally or through agents, have neither been registered under the Act, nor effectively qualified for any exemption from registration available under the Act or any federal statute or rule.
33. By reason of the foregoing, the defendants have violated, are violating, and unless enjoined, will

continue to violate Ark. Code Ann. § 23-42-501 (Repl. 2000).

SECOND CAUSE OF ACTION

Violation of Ark. Code Ann. § 23-42-301(a) Failure to Register as Agent of the Issuer

34. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding cause of action.
35. Defendant Stead is not registered with the Department as an agent of the issuer, as required by Ark. Code Ann. § 23-42-301(a) (Repl. 2000).
36. Defendant CTIC is an issuer as defined at Ark. Code Ann. § 23-42-102(9) (Repl. 2000).
37. Defendant Stead, by virtue of his efforts and activities in effecting or attempting to effect transactions in securities of CTIC from this state is an agent of the issuer. Defendant Stead transacted business from this state as an agent of the issuer without registration in accordance with the Act.
38. By reason of the foregoing, Defendant Stead has violated, is violating, and unless enjoined, will continue to violate Ark. Code Ann. § 23-42-301(a) (Repl. 2000).

THIRD CAUSE OF ACTION

Violation of Ark. Code Ann. § 23-42-301(b)(1) (Repl. 2000) Employment of Unregistered Agent of the Issuer

39. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding cause of action.
40. Defendant Stead is not registered as an agent with the Department, as required by Ark. Code Ann. § 23-42-301(a) (Repl. 2000).
41. Defendant CTIC is an issuer as defined at Ark. Code Ann. § 23-42-102(9) (Repl. 2000).
42. Defendant CTIC employed Stead as an agent who was not registered under the Act to effect or attempt to effect sales of securities.

43. By reason of the foregoing, the defendant, CTIC, violated, is violating and, unless enjoined, will continue to violate Ark. Code Ann. § 23-42-301(b)(1) (Repl. 2000).

FOURTH CAUSE OF ACTION

Violation of Ark. Code Ann. § 23-42-301(a) Failure to Register as a Broker-Dealer

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

45. Defendant Robertson is not registered with the Department as a broker-dealer, as required by Ark. Code Ann. § 23-42-301(a) (Repl. 2000).

46. Because Robertson, in offering and selling CTIC stock he had purchased in his own name, effected securities transactions in the accounts of others, he acted as a broker-dealer as defined at Ark. Code Ann. § 23-42-102(2) (Repl. 2000).

47. By reason of the foregoing, Robertson has violated, is violating, and unless enjoined, will continue to violate Ark. Code Ann. § 23-42-301(a) (Repl. 2000).

FIFTH CAUSE OF ACTION

Violation of Ark. Code Ann. § 23-42-507(2): Untrue Statements of Material Facts and Omissions of Material Facts in Connection with Offer, Sale or Purchase of Securities

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

49. The defendants except I. Lainhart, personally or through agents, in connection with the offer or sale of securities, directly or indirectly, made and are making untrue statements of material facts including, but not limited to:

- a. Statements by D. Lainhart that he was the chief operating officer or president of CTIC as he was selling CITC stock to prospective investors as an agent of DCC or acting in his own behalf, selling CTIC shares issued to DCC-TX, a Texas corporation that had been dissolved;

- b. Statements to purchasers of CTIC stock that there would be an IPO in the near to foreseeable future resulting in a huge increase in the value of the CTIC stock being sold;
 - c. Statements that purchasers of CTIC stock would be able to sell their CTIC stock at the hugely increased price at the time of the IPO;
 - d. Statements that CTIC was in talks with or had contracts with various large companies, including Air Bus, Boeing, Lockheed and the United State Department of Defense for either hazardous waste disposal or carbon nano materials; and
 - e. Statements that the money investors were paying for the CTIC stock would be used to develop CTIC and its products, including the preparation of an IPO and the development and construction of machines using CTIC technologies, including a new, commercial scale, 80,000-pound capacity machine, when most of it was put to the Lainharts' personal use.
50. The defendants except I. Lainhart, directly or indirectly, personally or through agents, in connection with the offer or sale of securities, omitted and are omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were and are made, not misleading, including, but not limited to, the following matters:
- a. Any general or specific risk factors associated with the securities;
 - b. That the securities have not been and are not registered under the Act;
 - c. That the defendants who offered and sold the securities were and are not registered under the Act;
 - d. The actual background or business experience of the defendants, including D. Lainhart's disciplinary history with the NASD, now known as FINRA, his disciplinary history with the Arkansas Securities Department and the permanent injunction he agreed to barring him from selling securities or engaging in any "fraudulent or deceptive advertising practice" in Kansas;
 - e. That investor funds would not be used exclusively for the benefit of CTIC but would be

converted to the use of D. Lainhart and I. Lainhart for their personal benefit;

- f. That investor funds had been converted by the Lainharts to their own use extensively over the years; and
- g. That the Lainharts' only sources of income were loans made to DCC, D. Lainhart and/or I. Lainhart and the sale of CTIC stock, proceeds of which were converted to the use of the Lainharts and used to make payments on the loans.

51. By reason of the foregoing, the defendants, directly or indirectly, have violated, are violating, and unless enjoined, will continue to violate Ark. Code Ann. § 23-42-507(2) (Repl. 2000).

SIXTH CAUSE OF ACTION

Violation of Ark. Code Ann. § 23-42-507(3): Engaging in any Act, Practice or Course of Business which Operates or Would Operate as a Fraud or Deceit upon any Person

- 52. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding causes of action.
- 53. The defendants except I. Lainhart, personally or through agents, 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 above, have engaged and are engaging in an act, practice or course of business that has operated and continues to operate as a fraud or deceit upon investors.
- 54. By reason of the foregoing, the defendants, directly or indirectly, have violated, are violating, and unless enjoined, will continue to violate Ark. Code Ann. § 23-42-507(3) (Repl. 2000).

PRAYER FOR RELIEF

The defendants have engaged in acts and practices in violation of the Act and have, as a result of these activities, received a substantial amount of money from investors. Unless enjoined, the defendants 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 the defendants from the investors or money or securities held by the defendants on behalf of the investors will be lost, removed or transferred. This is especially true of the Lainharts and the corporate defendants, which are controlled by the Lainharts, and CHIT, the relief defendant, which is a trust wholly owned and controlled by the Lainharts because the sale of CTIC stock is a primary source of income for the Lainharts. The immediate issuance of a temporary restraining order, an order freezing assets, an order preventing the destruction or spoliation of evidence, an order appointing a receiver and temporary and permanent injunctions to issue against all the defendants is necessary to preserve the money received and money or securities held 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 Ark. Code Ann. § 23-42-209 (Repl. 2000), the plaintiff prays that the Court, without requiring a bond or other security, as per Ark. Code Ann. § 23-42-209(a)(5) (Repl. 2000) and Ark.R.Civ.P. 65(d), grant the following relief:

I.

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

- A. Offering and selling any security in or from this state;
- B. Transacting business in or from this state as a broker-dealer or agent;
- 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; and
- E. Engaging in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the offer, sale and/or purchase of securities in and/or from this state;

II.

An order issued immediately against all the defendants, their agents, servants, employees, assigns and all those persons, directly or indirectly, acting on their behalf, under their direction and control, and/or in active concert or participation with them, who receive actual notice of the order, by personal service, facsimile or otherwise, prohibiting 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 the defendants or any financial transactions by the defendants or to which the defendants were parties;

III.

An order immediately freezing the assets of the defendants CTIC, DCC, D. Lainhart, I. Lainhart and CHIT and ordering that all financial or depository institutions comply with the Court's order;

IV.

An order immediately appointing a receiver for the defendants, CTIC, DCC, D. Lainhart, I. Lainhart and CHIT, empowering said receiver to marshal and take possession of the books, records, funds and assets of these defendants; to undertake whatever manner of legal or equitable action is required to preserve or maintain the assets of these defendants; and to operate or liquidate the assets of these defendants for the benefit of the investors, as equity may require;

V.

An order requiring all the defendants to make restitution of all investors who purchased CTIC stock from the defendants, specifically requiring CTIC, DCC, D. Lainhart and I. Lainhart to cooperate with the receiver to effect disgorgement on their part through the receivership, and requiring the remaining defendants, Robertson and Stead, to disgorge to the registry of the Court all ill gotten gains received in the sale of unregistered stock as set out above;

VI.

An order requiring the defendants to file with the Court and to serve on the Commissioner within ten (10) days of the service of this petition on the defendants an accounting under oath detailing all of their assets and all funds received from investors and the disposition and/or use of those funds; and

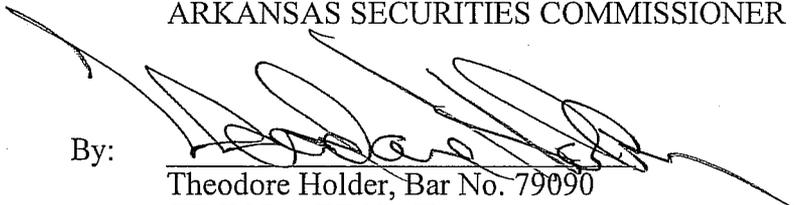
VII.

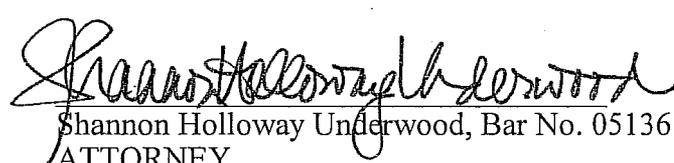
All other just and proper relief to which the plaintiff might be entitled.

Respectfully submitted,

A. Heath Abshure
ARKANSAS SECURITIES COMMISSIONER

By:


Theodore Holder, Bar No. 79090
SENIOR ATTORNEY


Shannon Holloway Underwood, Bar No. 05136
ATTORNEY

Arkansas Securities Department
Heritage West Building, Suite 300
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Little Rock, Arkansas 72201
(501) 324-9260; 324-9268 - Facsimile
Attorneys for Plaintiff

VERIFICATION

I, A. Heath Abshure, do hereby state upon oath that the foregoing facts and allegations are true and correct to the best of my knowledge and belief.

A. Heath Abshure

A. Heath Abshure

ACKNOWLEDGMENT

State of Arkansas
County of Pulaski

On this 29th day of July, 2009, before me, Shannon H. Underwood, the undersigned officer, personally appeared A. Heath Abshure, Securities Commissioner of the State of Arkansas, known to me to be the person described in the foregoing instrument, and acknowledged that he executed the same in the capacity therein stated and for the purposes therein contained.

In witness wherefore I hereunto set my hand and official seal.

Shannon Holloway Underwood NOTARY PUBLIC-STATE OF ARKANSAS Pulaski County My Commission Expires 6-26-2016 Commission # 12349005	<i>Shannon Holloway Underwood</i> My commission expires:
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6/26/2016