UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
Tampa Division

SECURITIES AND EXCHANGE COMMISSION,	**CASE NO.** 8:01CV1667-T-23TGW
Plaintiff,	
v.	
MORGAN FINANCIAL SERVICES, INC. and CHARLES F. MORGAN,	
Defendants.	

COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF

Plaintiff, Securities and Exchange Commission ("Commission") alleges that:

INTRODUCTION

1. The Commission brings this action to restrain and enjoin the Defendants Morgan Financial Services, Inc. and Charles F. Morgan (collectively, "Defendants") from continuing to violate the federal securities laws through their misuse of investor monies. Since at least 1991, Defendants have raised over $2.4 million from 17 investors by making material misrepresentations and omissions concerning, among other things, the safety of and guaranteed return on the investment. Contrary to their representations, Defendants misappropriated some of the investor funds and used some of the funds to make interest or principal payments to earlier investors. Defendants also used the funds for other purposes inconsistent with their representations, including purchasing a controlling interest in a bankrupt, non-public company which had limited revenues, poor management, and no history of profits.

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DEFENDANTS

2. Defendant Charles F. Morgan ("Morgan"), age 56, is a resident of Tampa, Florida. From September 1985 to August 2000, Morgan was employed as a registered representative with firms registered as broker-dealers and investment advisers with the Commission. Since August 2000, Morgan has been unemployed. Morgan has been the sole owner and president of Morgan Financial Services, Inc. from its inception to the present.

3. Morgan Financial Services, Inc. ("MFS") was incorporated pursuant to Florida law on April 1, 1986. From September 1986 through August 2000, MFS operated as an Office of Supervisory Jurisdiction of the broker-dealers with which Morgan was associated.

JURISDICTION AND VENUE

4. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d) and 22(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§ 77t(b), 77t(d) and 77v(a) and Sections 21(d), 21(e), and 27 of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§ 78u(d), 78u(e) and 78aa.

5. Both of the Defendants reside within the Middle District of Florida.

6. Defendants, directly and indirectly, have made use of the means and instrumentalities of interstate commerce, the means and instruments of transportation and communication in interstate commerce, and the mails, in connection with the acts, practices, and courses of business complained of herein.

THE FRAUDULENT INVESTMENT SCHEME

The Investment Contracts

7. From December 1991 through June 2000, Defendants induced Morgan's friends and brokerage customers to invest approximately $2.4 million in investment contracts issued by MFS. Specifically, Morgan represented to prospective investors that funds would be placed in a "special account" maintained with MFS which would generate guaranteed interest payments without exposing the principal to any risk.

8. Defendants made a number of misrepresentations to prospective investors, including telling them that: (a) their principal was not at risk; (b) the interest rate on their investment was guaranteed, variously at 10%, 11% or 12%, and the rate would not decline; (c) the interest would accrue daily and could be disbursed monthly to the investor or capitalized each month (thereby increasing the interest accrued in each subsequent month); and (d) the entire investment, both principal and interest, or any portion thereof, could be liquidated with only seven days' notice.

9. Based upon Defendants' misrepresentations, seventeen (17) individuals, mostly retirees, invested $2,449,798.35 in Defendants' investment contract scheme. Some of the investors received written promissory notes, due on demand, which listed as security for their investments "securities held by MFS" and a "personal guarantee of Morgan." Other investors received written promissory notes, due on demand, which listed as security for their investments "all assets owned by MFS" and a "personal guarantee of Morgan." Other investors received no notes. All of the investors received oral assurances of safety and liquidity.

10. The 17 investors reside both within and outside the State of Florida.

11. No registration statement pursuant to the Securities Act was filed or in effect with the Commission with respect to the MFS investment contracts or the offers and sales of the MFS investment contracts.

Defendants' Lulling of Investors

12. Morgan mailed each investor a monthly statement on MFS letterhead and personally initialed each statement. Each statement showed the investor's purported "account value," computed as the sum of all principal payments plus interest accrued, less withdrawals. The monthly statements falsely showed the investments growing at the previously agreed-upon interest rate and indicated that the funds were in MFS' "special account," thereby lulling investors into believing that their investments were safe and were appreciating.

13. During the relevant period, when investors called Morgan to inquire if their money was secure, Morgan unqualifiedly assured them it was.

Defendants' Misuse of Investor Funds

14. Contrary to Morgan's representations to investors, Morgan pooled all of the investors' funds in MFS' operating checking account and then used the money in whatever manner he chose, without regard to safety or the representations he made to the investors. The investors themselves had no discretion over how the investment funds were used.

15. Unbeknownst to the investors, the Defendants used the $2.4 million of investors' funds as follows: (a) approximately $813,000 was used, in a Ponzi-like fashion, to pay interest on investment contracts and satisfy requests for redemptions; (b) Morgan diverted approximately $672,000 of the investors' funds as "loans" to Consource Plastic Recycling, Corp. ("Consource"), a non-public company in which Morgan had invested a substantial amount of his

own money; and (c) approximately $700,000 was used to purchase, in Defendants' names, shares of Consource common stock from dissatisfied investors whom Morgan had introduced to Consource, and to purchase Consource common stock from Consource's officers and directors. Defendants used the remaining proceeds, approximately $250,000, to fund MFS' operating expenses and securities trading accounts.

16. Since 1994, Morgan has been, at various times, an officer, director, $90,000/year paid consultant and the largest shareholder of Consource. Morgan knew that Consource was unable to fill its customers' orders, that it had been in and out of bankruptcy, that it was deeply in debt and unable to borrow money except from the Defendants, and that it had been plagued by management difficulties. Morgan also knew there was no market for Consource's stock. Despite his knowledge of these facts, Morgan invested approximately $1,372,000 of the investors' funds in Consource.

17. Upon information and belief, Consource is now defunct; it has defaulted on its mortgage; it has been evicted from its offices; and it has no revenue. Consource's remaining tangible assets were sold at auction pursuant to Florida law on February 26, 2001 and its stock is virtually worthless.

18. Defendants knew, or were reckless in not knowing, that their assurances to investors regarding investment safety, liquidity and high annual return were false. Specifically, Defendants knew, or were reckless in not knowing, that: (a) using newly invested funds to make payments to other investors and to pay MFS' operating expenses would not generate revenue, or increase asset value, in a manner that would enable Defendants to make the promised interest payments; (b) Defendants did not have access to sufficient capital to pay the investors upon their

requests for liquidation of their investments with the Defendants; (c) Defendants did not have the capital or assets to support the account values shown on the MFS monthly statements; and (d) the assets pledged as security to the investors who received written notes were over-hypothecated.

19. Defendants knew, or were reckless in not knowing, that they omitted to state facts to the investors necessary to make the statements made, in light of the circumstances, not materially misleading or false. Specifically, Defendants failed to disclose to investors that: (a) their investments were not secure, were illiquid or not intact and, therefore, would not be available for redemption; (b) the interest payments investors were promised were paid out of other investors' principal contributions; (c) the investment proceeds would be improperly used to fund MFS' operating expenses; and (d) the investment funds were being used to make loans or purchase the common stock of a failing company (Consource) which had never operated at a profit and, upon information and belief, was unable to raise capital or borrow money other than through Defendants.

20. As of August 1, 2000, Defendants have been unjustly enriched by approximately $1.6 million.

COUNT I

DEFENDANTS VIOLATED SECTIONS 5(a) AND 5(c) OF THE SECURITIES ACT

21. The Commission realleges and repeats the allegations set forth in Paragraphs 1 through 20 of this Complaint as if fully stated herein.

22. No registration statement was filed or in effect with the Commission pursuant to the Securities Act with respect to the securities and transactions described herein nor were they exempt from registration with the Commission.

23. From December 1991 through June 2000, Defendants Morgan and MFS, directly or indirectly:

a) made use of the means or instruments of transportation or communication in interstate commerce or of the mails to sell securities as described herein, through the use or medium of a prospectus or otherwise;

b) carried securities or caused such securities, as described herein, to be carried through the mails or in interstate commerce, by any means or instruments of transportation, for the purpose of sale or delivery after sale; and/or

c) made use of the means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell or offer to buy through the use or medium of any prospectus or otherwise, as described herein,

without a registration statement having been filed or being in effect with the Commission as to such securities or transactions.

24. By reason of the foregoing, Defendants 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).

COUNT II

DEFENDANTS VIOLATED SECTION 17(a)(1) OF THE SECURITIES ACT

25. The Commission realleges and repeats the allegations set forth in Paragraphs 1 through 20 of this Complaint as if fully stated herein.

26. From December 1991 through June 2000, Defendants, directly or indirectly, by use of the means or instruments of transportation or communication in interstate commerce and by use of the mails, in the offer or sale of securities, as described herein, knowingly, willfully or recklessly employed devices, schemes or artifices to defraud.

27. By reason of the foregoing, Defendants directly and indirectly, violated, and unless enjoined, will continue to violate Section 17(a)(1) of the Securities Act, 15 U.S.C. § 77q(a)(1).

COUNT III

DEFENDANTS VIOLATED SECTIONS 17(a)(2) AND 17(a)(3) OF THE SECURITIES ACT

28. The Commission realleges and repeats the allegations set forth in Paragraphs 1 through 20 of this Complaint as if fully stated herein.

29. From December 1991 through the June 2000, Defendants, in the offer or sale of securities, by use of the means or instruments of transportation or communication in interstate commerce or by the use of the mails, directly or indirectly, as described herein, have been:

a) obtaining money or property by means of untrue statements of material fact or omissions to state material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading; and

b) engaging in transactions, practices and courses of business which are now operating and will operate as a fraud or deceit upon purchasers and prospective purchasers of such securities.

30. By reason of the foregoing, Defendants have violated and, unless enjoined, will continue to violate Sections 17(a)(2) and 17(a)(3) of the Securities Act, 15 U.S.C. §§ 77q(a)(2) and 77q(a)(3).

COUNT IV

DEFENDANTS VIOLATED SECTION 10(b)
OF THE EXCHANGE ACT AND RULE 10b-5 THEREUNDER

31. The Commission realleges and repeats the allegations set forth in Paragraphs 1 through 20 of this Complaint as if fully stated herein.

32. From December 1991 through June 2000, Defendants, directly or indirectly, by use of the means or instrumentalities of interstate commerce or of the mails, or of any facility of any national securities exchange, in connection with the purchase or sale of securities, as described herein, have been willfully, knowingly or recklessly:

a) employing devices, schemes or artifices to defraud;

b) making untrue statements of material facts and omitting to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and/or

c) engaging in acts, practices and courses of business which have operated, are now operating and will operate as a fraud upon the purchasers of such securities.

33. By reason of the foregoing, Defendants, directly or indirectly, 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, 17 C.F.R. § 240. 10b-5, thereunder.

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that the Court:

Permanent Injunctive Relief

Issue a Permanent Injunction, restraining and enjoining Defendants Morgan and MFS, their officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from violating Sections 5(a), 5(c), 17(a)(1), 17(a)(2) and 17(a)(3) of the Securities Act, 15 U.S.C. §§ 77e(a), 77e(c), 77q(a)(1), 77q(a)(2) and 77q(a)(3) and Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5.

Disgorgement

Issue an Order requiring Defendants to disgorge, jointly and severally, all ill-gotten profits or proceeds that they have received, directly or indirectly, as a result of the acts and/or courses of conduct complained of herein, with prejudgment interest.

Penalties

Issue an Order directing Defendants Morgan and MFS to pay civil money penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d) and Section 21(d) of the Exchange Act, 15 U.S.C. § 78(d)(3).

Further Relief

Grant such other and further relief as may be necessary and appropriate.

Retention of Jurisdiction

Further, the Commission respectfully requests that the Court retain jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that may hereby be entered, or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court.

Respectfully submitted,

August 31, 2001

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