

IN THE DISTRICT COURT OF TULSA COUNTY
STATE OF OKLAHOMA

JAN 11 2001

SALLY HOWE SMITH, CLERK OF THE DISTRICT COURT
STATE OF OKLAHOMA, TULSA COUNTY

Oklahoma Department of Securities)
ex rel. Irving L. Faight,)
Administrator,)

Plaintiff,)

v.)

Parakletos Professional Services,)
L.L.C., an Oklahoma limited liability)
company, Parakletos Investment)
Club, Parakletos Investment Club II,)
Charles R. Chung, an individual, and)
J. Elaine Chung, an individual,)

Defendants.)

Case No.

CJ 2001 00188

SHARRON BUBENIK

PETITION FOR PERMANENT INJUNCTION

AND OTHER EQUITABLE RELIEF

COMES NOW the Plaintiff, Oklahoma Department of Securities, *ex rel.* Irving L. Faight, ("Department"), and for its claims against the above-named Defendants, alleges and states as follows:

OVERVIEW

1. This case involves violations of the Oklahoma Securities Act (the "Act"), Okla. Stat. tit. 71, §§ 1-413, 501, 701-703 (1991 and Supp. 2000), by Parakletos Professional Services, L.L.C., Parakletos Investment Club, Parakletos Investment Club II, Charles R. Chung and J. Elaine Chung (the "Defendants"). Specifically, the Department alleges that the Defendants failed to register as a broker-dealer and/or agent, failed to register securities for offer and/or sale in and/or from the State of

Oklahoma, and perpetrated fraud in connection with the offer, sale or purchase of securities. These violations are alleged to have occurred in connection with the offer and sale of interests (the "Interests") in one or more investment clubs organized, promoted and controlled by the Defendants (the "Investment Club"). The Defendants are believed to have received in excess of Three Million Dollars (\$3,000,000) from approximately one hundred (100) participants in the Investment Club (the "Investors").

JURISDICTION

2. The Administrator of the Department brings this action pursuant to Section 406.1 of the Act and is the proper party to bring this action against the Defendants.

3. Pursuant to Sections 2 and 413 of the Act, Defendants, in connection with their activities and the offer, sale, and purchase of securities, are subject to the provisions of the Act. By virtue of their transaction of business by contract and otherwise and commission of other acts in this state, Defendants are subject to the jurisdiction of this Court and to service of summons within or outside of this state.

DEFENDANTS

4. Parakletos Professional Services, L.L.C. (Parakletos) is a limited liability company organized under the laws of the State of Oklahoma that provides tax preparation services. At all times material hereto, Parakletos operated under the dominion and control of Charles R. Chung.

5. At all times material hereto, Parakletos Investment Club of Parakletos Professional Services, LLC is represented by the Defendants to be a limited partnership formed under the laws of the State of Oklahoma to invest the assets of the partnership in stocks, bonds, and any other investment vehicles for the benefit of the partners.

6. At all times material hereto, Parakletos Investment Club II is represented by the Defendants to have been formed for the purpose of making investments on behalf of its participants. (Parakletos Investment Club and Parakletos Investment Club II are collectively referred to hereinafter as the "Investment Club.")

7. Charles R. Chung (Charles Chung) is an individual who, at all times material hereto, was a resident of the State of Oklahoma doing the acts complained of in his own name and in the name of Parakletos and the Investment Club.

8. J. Elaine Chung (Elaine Chung) is an individual who, at all times material hereto, was a resident of the State of Oklahoma doing the acts complained of in her own name and in the name of the Investment Club.

NATURE OF THE CASE

9. Parakletos Membership Services (Membership Services) operates as part of Parakletos providing its members with audit representation services and the right to join the Investment Club. The annual cost of membership is \$299.00 for an individual and \$399.00 for a business entity.

10. On or about May 13, 1999, Defendants began offering and selling the Interests in the Investment Club in and/or from the State of Oklahoma. This practice continued until as recently as November 30, 2000.

11. Purchases of the Interests in the Investment Club were evidenced by (a) the execution of a limited partnership agreement between the Investment Club and the Investor (the "Investment Club Agreement") or (b) the issuance of a promissory note by the Investment Club to the Investor (the "Promissory Note").

12. By the provisions of the Investment Club Agreement, the Investor is designated as a limited partner without the obligation or the right to participate in the management of the Investment Club.

13. Under the provisions of the Investment Club Agreement, Investors are guaranteed a minimum rate of return of twenty-four percent (24%) annually.

14. Under the provisions of the Investment Club Agreement, Charles Chung, as President of Parakletos, assumed the management duties over the funds invested.

15. The amount of interest payable to Investors on the Promissory Notes ranged from sixty percent (60%) per annum to seventy-nine percent (79%) per annum.

16. Certain of the Promissory Notes were secured by an assignment of the personal and business assets of Charles Chung and Elaine Chung.

17. Elaine Chung unconditionally guaranteed the obligations of the Investment Club under certain of the Promissory Notes.

18. The promotional materials distributed in connection with the Investment Club (the "Promotional Materials") describe the investments as "fully secured or insured" with a minimum guaranteed return of twenty-four percent (24%) annually.

19. The Promotional Materials also state the following: "your satisfaction guaranteed or your money back."

20. At all times material hereto, Parakletos and Charles Chung managed the funds invested by the Investors.

21. The Investors received monthly statements from the Defendants reflecting the value of their investments.

22. On or about December 26, 2000, Defendants notified Investors that the value of the Investment Club's account was significantly reduced due to a declining market in the fourth quarter of 2000 (the "December 26th Communication").

23. The December 26th Communication states that Defendants collected \$3,275,343 to invest on behalf of the Investors and that the balance of the Investment Club account was \$132,404 as of December 22, 2000.

24. On or about December 8, 2000, certain of the Investors requested that their money be withdrawn and their participation in the Investment Club terminated. Their requests were rejected by the Defendants.

25. On or about January 3, 2001, Defendants notified Investors that the Investment Club had failed.

FIRST CAUSE OF ACTION

(Violation of Section 201 of the Act: Failure to Register as a Broker-Dealer and/or Agent)

26. Plaintiff realleges and incorporates by reference each and every allegation contained in paragraphs 1 through 25 above.

27. Defendant Parakletos, by virtue of its efforts and activities in effecting transactions in securities for the account of others or for its own account, is a broker-dealer, as defined in Section 2 of the Act. Defendant Parakletos is not, and has not been, registered under the Act as a broker-dealer as required by Section 201 of the Act. [See Affidavit attached hereto as Exhibit A.]

28. Defendants Charles Chung and Elaine Chung, by virtue of their efforts and activities in representing Parakletos and/or the Investment Club in effecting or attempting to effect purchases or sales of securities, are agents, as defined in Section 2

of the Act. Defendants Charles Chung and Elaine Chung are not, and have not been, registered under the Act as agents of a broker-dealer or issuer as required by Section 201 of the Act. [See Affidavit attached hereto as Exhibit A.] By reason of the foregoing, Defendants Parakletos, Charles Chung and Elaine Chung have violated, and unless enjoined, will continue to violate, Section 201 of the Act.

SECOND CAUSE OF ACTION

(Violation of Section 301 of the Act: Offering and/or Selling Unregistered Securities)

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

30. The Defendants offered and/or sold securities in and/or from this state. Such securities were not registered under the Act. [See Affidavit attached hereto as Exhibit B.] By reason of the foregoing, the Defendants have violated, and unless enjoined, will continue to violate, Section 301 of the Act.

THIRD CAUSE OF ACTION

(Violation of Section 101(2) of the Act: Untrue Statements of Material Facts and Omissions of Material Facts in Connection With Offer, Sale or Purchase of Securities)

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

32. Defendants, in connection with the offer, sale or purchase of securities, directly and indirectly, made untrue statements of material facts, including, but not limited to, the following:

- a. that the investments are fully secured or insured;

- b. that the stated return on the investments is guaranteed;
- c. that the obligations of the Investment Club in connection with certain of the Promissory Notes are unconditionally guaranteed; and
- d. that the Investment Club is organized as a limited partnership under the laws of the State of Oklahoma.

33. Defendants, in connection with the offer, sale or purchase of securities, directly and indirectly, 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, the following matters:

- a. that Defendants Parakletos, Charles Chung and Elaine Chung are not qualified to transact business in this state as a broker-dealer or agent;
- b. that Defendants Parakletos, Charles Chung and Elaine Chung are not registered under the Act as a broker-dealer or agent;
- c. that the Interests in the Investment Club are securities that are not registered under the Act;
- d. that the value of the Investment Club account had declined significantly; and
- e. that the value of the Investment Club account was not sufficient to cover the principal amounts of the Investors' investments or the promised rate of return at the time the Defendants accepted funds from certain of the Investors.

34. By reason of the foregoing, Defendants, directly and indirectly, violated, and unless enjoined, will continue to violate Section 101(2) of the Act.

FOURTH CAUSE OF ACTION

(Violation of Section 101(3) of the Act: Engaging in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person)

35. The Department realleges and incorporates by reference each and every allegation contained in the preceding causes of action.

36. Defendants, in connection with the offer, sale or purchase of securities, and through the use of the untrue statements of material facts and the omissions of material facts described in paragraphs 32 and 33 above, engaged in an act, practice, or course of business that operated as a fraud or deceit upon the Investors.

37. By reason of the foregoing, Defendants, directly and indirectly, violated, and unless enjoined, will continue to violate Section 101(3) of the Act.

PRAYER FOR RELIEF

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 numerous 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 Defendants from the Investors or money or securities held by Defendants on behalf of the Investors will be lost, removed or transferred. A temporary restraining order to issue instanter and temporary and permanent injunctions to issue against Defendants are necessary to preserve these funds, securities 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 Section 406.1 of the Act, the Department prays for the court to grant the following relief:

I.

A temporary restraining order to issue instanter and a temporary injunction, restraining and enjoining the Defendants, their officers, directors, agents, servants, employees, assigns, attorneys, 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 and temporary injunction, and each of them from:

a. transacting business in this state as a broker-dealer, agent, investment adviser and/or investment adviser representative unless appropriately registered under the Act;

b. offering and selling any security in this state unless the security is registered under the Act or the security or transaction is exempted under Section 401 of the Act or the security is a federal covered security;

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;

e. engaging in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person; and,

f. directly or indirectly, tampering with, altering, concealing, removing, destroying or otherwise disposing of any and all books, records, documents, files, correspondence, computer disks or computer generated data of any type, however created or stored, pertaining to Defendants or any financial or securities transaction by Defendants;

II.

An order freezing the assets of Defendants Parakletos and Investment Club;

III.

An order appointing a receiver *pendente lite* for Defendants Parakletos and Investment Club, empowering said receiver to marshal and take possession of the records and assets of Defendants Parakletos and Investment Club; to undertake whatever manner of legal or equitable action is required to preserve or maintain the assets of Defendants Parakletos and Investment Club; and to maintain the operations or liquidate the assets of such Defendants for the benefit of the Investors, as equity may require;

IV.

A permanent injunction forever enjoining and restraining Defendants from:

- a. violating Section 201 of the Act;
- b. violating Section 301 of the Act; and
- c. violating Section 101 of the Act;

V.

An order requiring Defendants to make restitution to any and all Investors who purchased securities from Defendants or who transferred money to Defendants for the purpose of making securities investments on their behalf;

VI.

An order requiring Defendants, their officers, directors, agents, servants, employees, assigns, attorneys, and all persons, directly or indirectly, acting on their behalf, under their direction and control, and/or in active concert or participation with them, to disgorge all ill-gotten gains;

VII.

An order imposing a civil penalty against Defendants in the amount of Fifty Thousand Dollars (\$50,000.00); and

VIII.

Such other equitable relief as the Court may deem necessary, just and proper in connection with the enforcement of the Act.

Respectfully submitted,

OKLAHOMA DEPARTMENT OF SECURITIES
Irving L. Faught, Administrator

By: Rebecca A. Cryer
Melanie Hall, #1209
Rebecca A. Cryer, #2065
Oklahoma Department of Securities
120 North Robinson, Suite 860
Oklahoma City, Oklahoma 73102
(405) 280-7700

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA) SS.

Irving Faught, of lawful age, being first duly sworn deposes and says: that he is the Administrator of the Oklahoma Department of Securities, that he has read the foregoing Petition for Permanent Injunction and Other Equitable Relief and knows the contents thereof, and that the matters and things stated therein have been provided to him by staff members of the Department under his authority and direction, and are true and correct to the best of his knowledge, information and belief.

(SEAL)



Irving L. Faught, ADMINISTRATOR OF THE
OKLAHOMA DEPARTMENT OF SECURITIES
120 North Robinson, Suite 860
Oklahoma City, Oklahoma 73102
(405) 280-7700

Subscribed and sworn to before me this 11th day of January, 2001.

(NOTARIAL SEAL)

Brenda S. London
Notary Public

My Commission Expires:

August 26, 2001

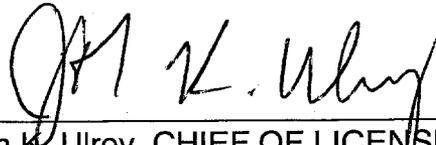
**STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
First National Center, Suite 860
120 North Robinson
Oklahoma City, Oklahoma 73102**

AFFIDAVIT

I, John K. Ulrey, Chief of Licensing of the Oklahoma Department of Securities, do hereby swear that I have caused to be examined the registration files of the Oklahoma Department of Securities pertaining to current and past registered broker-dealers, agents, investment advisers and investment adviser representatives in Oklahoma and that nowhere therein was found a record of an application to register as a broker-dealer, agent, investment adviser or investment adviser representative filed pursuant to Section 202 of the Oklahoma Securities Act (Act) for Parakletos Professional Services, L.L.C., Charles R. Chung, or J. Elaine Chung.

I further swear that I have caused to be examined the registration files of the Oklahoma Department of Securities pertaining to current and past registered broker-dealers, agents, investment advisers and investment adviser representatives in Oklahoma and that nowhere therein was found a record of the registration under the Act of Parakletos Professional Services, L.L.C., Charles R. Chung, or J. Elaine Chung as a broker-dealer, agent, investment adviser or investment adviser representative under the Act.

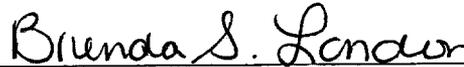
(SEAL)



John K. Ulrey, CHIEF OF LICENSING of the
OKLAHOMA DEPARTMENT OF SECURITIES
First National Center, Suite 860
120 North Robinson
Oklahoma City, OK 73102
Telephone (405) 280-7700

Subscribed and sworn to before me this 10th day of January, 2001.

(NOTARIAL SEAL)



Notary Public

My Commission Expires:

August 26, 2001

AFFIDAVIT

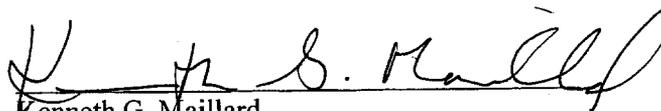
STATE OF OKLAHOMA)
) SS.
COUNTY OF OKLAHOMA)

I, Kenneth G. Maillard, Director of Registrations of the Oklahoma Department of Securities (Department), swear that I have conducted an examination of the registration and exemption files of the Department pertaining to current and past registrations for the offer or sale of securities in Oklahoma and that nowhere therein was found a record of an application for the registration of securities pursuant to Section 301 of the Oklahoma Securities Act (Act), 71 O.S. §§1-413, 501, 701-703 (Supp. 2000), for Parakletos Professional Services, L.L.C., Parakletos Investment Club or Parakletos Investment Club II.

I further swear that nowhere within the registration files for the Department was found a record of a registration of securities for Parakletos Professional Services, L.L.C., Parakletos Investment Club or Parakletos Investment Club II, pursuant to Section 301 of the Act.

I further swear that nowhere within the exemption files for the Department was found a record of a notice of intent to claim exemption from Sections 301 and 402 of the Act for Parakletos Professional Services L.L.C., Parakletos Investment Club or Parakletos Investment Club II, pursuant to any subsection of Section 401 of the Act.

(SEAL)



Kenneth G. Maillard
DIRECTOR OF REGISTRATIONS
OKLAHOMA DEPARTMENT OF SECURITIES
First National Center, Suite 860
120 North Robinson
Oklahoma City, Oklahoma 73102
(405) 280-7700

Subscribed and sworn to before me this 11th day of January, 2001.

(NOTARIAL SEAL)

Brenda S. London
NOTARY PUBLIC

My Commission Expires:

August 26, 2001