

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

**COMMODITY FUTURES TRADING
COMMISSION,**

Plaintiff,

v.

**MARTIN BROWN and GEOFFREY S.
THOMPSON,**

Defendants,

**BRENDA L. BROWN, PRAIRIE
GARDEN CONDOS, INC., and
JAVETTE L. KING,**

Relief Defendants.

CIVIL ACTION NO. 00-C-7344

**COMPLAINT FOR INJUNCTIVE AND OTHER EQUITABLE RELIEF AND FOR
CIVIL PENALTIES UNDER THE COMMODITY EXCHANGE ACT**

I. SUMMARY

1. Since at least February 2000 and continuing through October 2000, Defendants Martin Brown (“Brown”) and Geoffrey S. Thompson (“Thompson”) (collectively, “Defendants”) have violated the Commodity Exchange Act, as amended (“the Act”), 7 U.S.C. §§ 1 *et seq.* (1994), and regulations thereunder by engaging in a scheme to fraudulently allocate commodity interest trades between at least two favored accounts and several customer accounts and engaging in unauthorized trading while Brown and Thompson were employed at F. C. Stone, LLC (“Stone”), a registered futures commission merchant (“FCM”).

2. Specifically, in February and March 2000, Javette L. King (“King”), Brown’s girlfriend, and Brenda L. Brown (“Brenda Brown”), Brown’s sister, (collectively, “Relief Defendants”) at the direction of or by agreement with Brown, opened commodity interest accounts at Stone. Brenda Brown’s account was opened in the name of Prairie Garden Condos (“Prairie Garden”) and King’s account was opened in her own name. (The Prairie Garden and King accounts are referred to as the “favored accounts”). Over the ensuing months, until the scheme was discovered in October 2000, the Defendants fraudulently allocated commodity interest trades to the favored accounts resulting in profits of approximately \$1,500,000.

3. To date, Stone has recovered approximately \$714,000 from the Defendants and Relief Defendants, but the Defendants and Relief Defendants have failed to return or reveal the whereabouts of the remaining illicitly obtained funds.

4. Thus, the Defendants have engaged, are engaging, and are about to engage in acts and practices which violate Section 4b(a)(i) and (iii) of the Commodity Exchange Act, as amended (“Act”), 7 U.S.C. § 6b(a)(i) and (iii)(1994) and Commission Regulation 166.2, 17 C.F.R. § 166.2 (2000).

5. Accordingly, pursuant to Section 6c of the Act, 7 U.S.C. § 13a-1 (1994), the plaintiff Commodity Futures Trading Commission (“Commission” or “CFTC”) brings this action to enjoin such acts and practices, and to compel compliance with the provisions of the Act. In addition, the Commission seeks civil penalties and an accounting, disgorgement, restitution, and such other equitable relief as the Court may deem necessary or appropriate.

II. JURISDICTION AND VENUE

6. The Act establishes a comprehensive system for regulating the purchase and sale of commodity futures contracts and options. This Court has jurisdiction over this action pursuant to Section 6c of the Act, 7 U.S.C. § 13a-1, which authorizes the Commission to seek injunctive relief against any person whenever it shall appear to the Commission that such person has engaged, is engaging, or is about to engage in any act or practice constituting a violation of any provision of the Act or any rule, regulation or order thereunder.

7. Venue properly lies with this Court pursuant to Section 6c of the Act, 7 U.S.C. § 13a-1(e) (1994), in that the Defendants and the Relief Defendants are found in, inhabit, or transact business in this district, and the acts and practices in violation of the Act have occurred, are occurring, or are about to occur within this district.

III. THE PARTIES

8. Plaintiff Commodity Futures Trading Commission is an independent federal regulatory agency charged with the responsibility for administering and enforcing the provisions of the Act, 7 U.S.C. §§ 1 *et seq.* (1994), and the Regulations promulgated under it, 17 C.F.R. §§ 1 *et seq.* (2000).

9. Defendant Geoffrey S. Thompson, age 28, resides at 8945 South Harper, Chicago, Illinois 60619. From March 6, 1996, until September 26, 2000, Thompson was an officer and employee of Stone or its predecessor corporation, Saul Stone & Company LLC (“Saul Stone”). From March 6, 1996, until September 26, 2000, Thompson was registered with the Commission as an associated person (“AP”) of Stone or Saul Stone pursuant to Section 4k of the Act, 7 U.S.C. § 6k (1994). Thompson is not currently registered with the Commission in any capacity.

10. Defendant Martin Brown, age 32, resides at 5432 South Prairie, Chicago, Illinois 60615. At all relevant times, Mr. Brown was an employee of Stone, who worked as a clerk in

Stone's risk management department. Brown has never been registered with the Commission in any capacity.

11. Relief Defendant Brenda L. Brown resides at 11919 South Hamlin Avenue, Alsip, Illinois 60803. Brenda L. Brown has never been registered with the Commission in any capacity.

12. Relief Defendant Prairie Garden Condos is an Illinois corporation. Brenda Brown is its registered agent and was duly authorized to open and trade a commodity futures account on its behalf. Prairie Garden's registered address is 11919 S. Hamlin Avenue, Alsip, Illinois 60803. It has never been registered with the Commission.

13. Relief Defendant Javette L. King resides at 5320 North Sheridan, Suite 2003, Chicago, Illinois 60640 and/or at 5432 South Prairie, Chicago, Illinois 60615, Brown's address. King has never been registered with the Commission in any capacity.

IV. OTHER ENTITIES

14. F.C. Stone, LLC is registered with the Commission as an FCM and is a member firm of the Chicago Board of Trade, the Chicago Mercantile Exchange and the National Futures Association. It is located at Suite 2600, 141 West Jackson Blvd., Chicago, Illinois 60604. As of July 1, 2000, it succeeded Saul Stone & Company LLC and assumed the rights and responsibilities of Saul Stone under all relevant customer account agreements. At all times, the term "Stone" shall refer to both Saul Stone & Company, LLC and F.C. Stone, LLC, as its successor and assignee.

V. FACTS

A. Statutory Background

15. A futures commission merchant is defined in Section 1a(12) of the Act, 7 U.S.C. § 1a(12), as an individual, association, partnership, corporation, or trust that: (i) is engaged in

soliciting or in accepting orders for the purchase or sale of any commodity for future delivery or on or subject to the rules of any contract market; and (ii) in or in connection with such solicitation or acceptance of orders, accepts any money, securities, or property (or extends credit in lieu thereof) to margin, guarantee, or secure any trades or contracts.

16. An associated person (“AP”) is defined in Section 4k (1) of the Act, 7 U.S.C. § 6k (1), as a person associated with an FCM as a partner, officer, employee, consultant or agent (or any person occupying a similar status or performing similar functions), in any capacity that involves: (i) the solicitation or acceptance of customers’ orders (other than in a clerical capacity); or (ii) the supervision of any person or persons so engaged.

B. The Allocation Scheme

17. In February 2000, Brown and Thompson were employed in Stone’s Futures Direct unit. Thompson was Stone’s Risk Manager, had overall supervisory responsibility for the Futures Direct unit and was Brown’s direct supervisor. Futures Direct accountholders are generally large traders and are permitted to place orders for commodity interest trades directly to the floor of the exchange using, at least in some instances, execution brokers.

18. The favored accounts were opened in February and March 2000 as Futures Direct accounts at Stone under the names and account numbers Javette L. King, No. 18809 and Prairie Garden Condos, No. 18799. The Defendants placed commodity interest trades for the favored accounts through execution brokers.

19. The scheme worked as follows: By the end of a day that a trade was placed, if the trade appeared profitable based upon subsequent market movements, the Defendants kept the trade in the favored account to which it had been entered. If a trade appeared unprofitable, the Defendants requested that the trade be transferred to one of several customer accounts victimized

in the scheme (these accounts are referred to as “victim accounts”). This transfer would be made by either a) calling the execution broker and instructing the execution broker to transfer the trade from the favored account to one of the victim accounts or b) if the trade had already been accepted from the execution broker by Stone, by asking someone at Stone to move the trade from a favored account to a victim account.

20. In the at least eight months that the Defendants perpetrated the scheme, the favored accounts amassed approximately \$1,500,000 in profits. The victim accounts suffered losses of approximately \$1,200,000.

21. On information and belief, the Defendants did not have specific authorization to place the trades in the victim accounts or written authorization to place trades in those accounts without specific authorization.

22. Between February and October 2000, Defendant Brown and the Relief Defendants caused transfers of the aggregate amount of approximately \$1,253,000 from the favored accounts to bank accounts in the names of King and Prairie Garden Condos. King received approximately \$556,000 and Prairie Garden Condos received approximately \$697,000.

23. On October 27, 2000, Stone demanded return of the illicitly obtained profits and obtained approximately \$714,000 from the Relief Defendants for the benefit of the customers whose accounts were victimized in the scheme.

24. However, since that date, neither the Defendants nor the Relief Defendants have returned the approximately \$585,000 still owed to customers victimized by the scheme.

VI. VIOLATIONS OF THE COMMODITY EXCHANGE ACT

COUNT I

**VIOLATIONS OF SECTION 4b(a)(i) and 4b(a)(iii) OF THE ACT:
CHEATING, DEFRAUDING AND DECEIVING COMMODITY CUSTOMERS**

25. Paragraphs 1 through 24 are re-alleged and incorporated herein.

26. Since at least February 2000, and continuing through October 2000, the Defendants violated Section 4b(a)(i) and 4b(a)(iii) of the Act, 7 U.S.C. § 6b(a)(i) and § 6b(a)(iii), in that they cheated, defrauded and deceived Stone customers by fraudulently allocating commodity interest contracts between favored accounts and other customer accounts without authorization.

27. The Defendants engaged in this conduct in or in connection with orders to make or the making of contracts of sale of commodities for future delivery, made or to be made for future delivery, made or to be made for or on behalf of other persons, where such contracts for future delivery were or could have been used for (a) hedging any transaction in interstate commerce in such commodity, or the products or byproducts thereof, or (b) determining the price basis of any transaction in interstate commerce in such commodity, or (c) delivering any such commodity sold, shipped, or received in interstate commerce for the fulfillment thereof.

28. Each trade that the Defendants fraudulently allocated is alleged as a separate and distinct violation of Sections 4b(a)(i) and (iii) of the Act.

COUNT II

**VIOLATIONS OF COMMISSION REGULATION 166.2:
UNAUTHORIZED TRADING**

29. Paragraphs 1 through 28 are re-alleged and incorporated herein.

30. On information and belief, since at least February 2000 and continuing through October 2000, the Defendants violated Commission Regulation 166.2, 17 C.F.R. § 166.2, in that

they effected transactions in commodity interests for the accounts of customers before the customers, or persons designated by the customers to control the accounts, specifically authorized the transactions or authorized in writing the effecting of transactions for the accounts without the customers' specific authorization, in violation of Regulation 166.2, 17 C.F.R. § 166.2.

31. Each unauthorized trade which the Defendants made is alleged as a separate and distinct violation of Commission Regulation 166.2.

COUNT III

DISGORGEMENT OF FUNDS FROM THE RELIEF DEFENDANTS

32. Paragraphs 1 through 31 are realleged and incorporated herein.

33. The Defendants have engaged in a fraudulent trade allocation scheme that defrauded customers of Stone.

34. The Relief Defendants have received funds that were obtained as a result of the Defendants' fraudulent conduct.

35. The Relief Defendants have no legitimate entitlement to or interest in the funds received from the Defendants' fraudulent conduct.

36. The Relief Defendants should be required to disgorge the funds they received from the Defendants' fraudulent conduct, or the value of those funds that the Relief Defendants may have subsequently transferred to third parties.

37. By reason of the foregoing, the Relief Defendants hold funds in constructive trust for the benefit of Stone customers who were victimized by Defendants' fraudulent scheme.

VI. RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that this Court, as authorized by Section 6c of the Act, 7 U.S.C. § 13a-1, and pursuant to its own equitable powers:

A. Find the Defendants liable for violating Section 4b(a)(i) and (iii) of the Act, 7 U.S.C. § 6b(a)(i) and Commission Regulation 166.2, 17 C.F.R. § 166.2;

B. Enter orders of preliminary and permanent injunction restraining and enjoining the Defendants and all persons insofar as they are acting in the capacity of the Defendants' agents, servants, successors, assigns, and attorneys, and all persons insofar as they are acting in active concert or participation with Defendants who receive actual notice of such order by personal service or otherwise, from directly or indirectly:

1. Cheating or defrauding or attempting to cheat or defraud or deceiving or attempting to deceive any other person, in or in connection with any order to make, or the making of, any contract of sale of any commodity for future delivery, made, or to be made, for or on behalf of any other person if such contract for future delivery is or may be used for (a) hedging any transaction in interstate commerce in such commodity or the products or byproducts thereof, or (b) determining the price basis of any transaction in interstate commerce in such commodity, or (c) delivering any such commodity sold, shipped, or received in interstate commerce for the fulfillment thereof, in violation of Section 4b(a)(i) and (iii) of the Act, 7 U.S.C. § 6b(a)(i); and
2. Effecting transactions in a commodity interest for the account of any customer unless before the transaction the customer, or person designated by the customer to control the account, specifically authorizes the transaction or authorizes in writing the effecting of transactions in commodity interests for the account without the customer's specific authorization, in violation of Regulation 166.2, 17 C.F.R. § 166.2;

C. Enter orders of preliminary injunction restraining and enjoining the Defendants and the Relief Defendants and all persons insofar as they are acting in the capacity of their agents, servants, successors, assigns, and attorneys, and all persons insofar as they are acting in active concert or participation with them who receive actual notice of such order by personal service or otherwise, from directly or indirectly:

1. Destroying, mutilating, concealing, altering or disposing of any books and records, documents, correspondence, brochures, manuals, electronically stored data, tape records or other property of Defendants and Relief Defendants, wherever located, including all such records concerning Defendants' and Relief Defendants' business operations;

2. Refusing to permit authorized representatives of the Commission to inspect, when and as requested, any books and records, documents, correspondence, brochures, manuals, electronically stored data, tape records or other property of Defendants and Relief Defendants, wherever located, including all such records concerning Defendants' and Relief Defendants' business operations; and
3. Withdrawing, transferring, removing, dissipating, concealing or disposing of, in any manner, any funds, assets, or other property, wherever situated, including but not limited to, all funds, personal property, money or securities held in safes, safety deposit boxes and all funds on deposit in any financial institution, bank or savings and loan account held by, under the control, or in the name of the Defendants and Relief Defendants.

D. Enter an order requiring the Defendants to pay civil penalties under the Act in amounts of not more than the higher of \$100,000 for each violation of the Act and Regulations committed prior to November 27, 1996, \$110,000 for each violation of the Act and Regulations committed between November 27, 1996 and October 22, 2000, \$120,000 for each violation of the Act and Regulations committed on or after October 23, 2000, or triple the monetary gain to Defendants, for each violation of the Act and Regulations;

E. Enter an order requiring the Defendants and the Relief Defendants to disgorge all funds, including any funds transferred to third parties, obtained or received as a result of the Defendants' fraudulent conduct, including pre-judgment interest;

F. Enter an order directing the Defendants and Relief Defendants to provide the Plaintiff immediate and continuing access to the Defendants' and Relief Defendants books and records, and make preliminary and final accountings to the Court of all of Defendants' and Relief Defendants' assets and liabilities;

H. Enter an order requiring the Defendants to pay costs and fees as permitted by 28 U.S.C. §§ 1920 and 2412(a)(2) (1994); and

I. Order such other and further relief as this Court may deem necessary and appropriate under the circumstances.

Date: November 21, 2000

ATTORNEYS FOR PLAINTIFF

COMMODITY FUTURES TRADING
COMMISSION
300 South Riverside Plaza, Suite 1600N
Chicago, IL 60606-6615
(312) 886-3090 (Williamson)
(312) 353-2200 (Streit)
(312) 353-1043 (Terrell)
(312) 886-3228 (Gould)
(312) 353-4502 facsimile

Ava Gould
Trial Attorney
ARDC No.06194202

David A. Terrell
Senior Trial Attorney
ARDC No. 06196293

Elizabeth M. Streit
Senior Trial Attorney
ARDC No. 06188119

Scott R. Williamson
Deputy Regional Counsel
ARDC No. 06191293