

FILED

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CLERK, U.S. DISTRICT COURT
By: PS Deputy

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TEXAS
WACO DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

SCOTT L. KLION, individually and
d/b/a as CEN-TEX ALCHEMY GUILD,
and ELIZABETH ALANIZ

Defendants.

CIVIL ACTION NO.

W98CA186

COMPLAINT

Plaintiff, Securities and Exchange Commission, for its claims, alleges that:

SUMMARY

1. Defendants Scott L. Klion ("Klion") and Elizabeth Alaniz ("Alaniz") are offering and selling interests in a fraudulent "Pure Contract Trust" investment program, through Cen-Tex Alchemy Guild ("Cen-Tex"). These defendants have admitted raising at least \$2.7 million from at least 1,400 investors in several states, and all of their activities have been conducted by use of the means and instrumentalities of interstate commerce, including the interstate wires and U.S. mail, in violation of the anti-fraud provisions of the federal securities laws.

2. Cen-Tex is, upon information and belief, an unincorporated business entity that acts as an alter ego for Klion and Alaniz; purportedly, Cen-Tex is organized as some manner of business trust. Klion and Alaniz represent that Cen-Tex will pool investors'

funds in the trust, and use the corpus to make a variety of "non-statutory" investments, i.e., foreign or offshore investments that they claim are not subject to the jurisdiction of any "Agent or Agency" of the U.S. Government. Indeed, Klion and Alaniz assert that all of Cen-Tex's activities are conducted offshore, to conceal his activities and his investors' profits, and that it will not report investors' identities or information about payments or contributions, to the Internal Revenue Service.

3. According to written offering materials prepared and used by Klion and Alaniz, Cen-Tex's investments will include currency trading, "offshore special projects," and other undisclosed investment activities. Klion and Alaniz claim all these "secret" investments will generate gross returns of 400% per annum (or more, in limited, undisclosed circumstances), and that investors will receive "safe, guaranteed" returns -- payable in monthly dividends, or allowed to accrue and compound -- ranging from 80% to 200% annually. Additionally, investors are told that "virtually all" of the investments are "guaranteed by 'Top 100' banks" and that the remainder are backed by either unidentified wealthy individuals or the governments of foreign countries. Klion and Alaniz emphasize that investments in Cen-Tex are specifically designed for retirement accounts, and intended to assure investors the ability to "retire in dignity." Investors are also told that Klion and Alaniz will be compensated from the "spread" between the gross returns and the amounts paid to investors, and in no other manner.

4. In reality, the trading programs do not exist, and recently obtained records reveal that the funds Klion and Alaniz have used funds obtained from current investors to repay putative profits -- in the form of monthly "dividends" -- to prior investors, in an obvious "Ponzi" scheme. These same records also reveal that Klion and Alaniz have used investors' funds for their own personal purposes, including, specifically, to make mortgage and rent payments on residences in Copperas Cove, Texas; to purchase vehicles, including a new, 1998 Range Rover; to purchase expensive jewelry, including a \$30,000 engagement ring that Klion recently presented to Alaniz; and, generally, for large cash withdrawals.

5. Commission representatives made contact with Klion and Cen-Tex in May 1998, seeking information as to their business activities; while Klion confirmed a few facts, he and Cen-Tex have refused the Commission's requests for substantive information. Within the past few days, the Commission was advised that Klion and Alaniz have used investors' funds to purchase property on Nevis, in the West Indies, and that they have prepared papers seeking citizenship in the Republic of Dominica. Banking records reflect that investors' funds have been moved offshore, into other banks in the Caribbean. Accordingly, the Commission seeks instanter, ex parte relief to halt their scheme and "freeze" the assets held by Klion and Cen-Tex for the benefit of the defendant's victims. Additionally, the Commission seeks an order requiring Klion and Alaniz to immediately surrender their passports, and to repatriate the funds held in

offshore accounts. The Commission also seeks other preliminary and permanent injunctive and ancillary relief, as described herein, to prohibit them from future predations and to assure that they do not profit from the activities alleged herein.

**STATEMENT OF FACTS AND ALLEGATIONS
RELEVANT TO ALL CAUSES OF ACTION**

6. Since July 1997, if not before, Klion and Alaniz have offered investment contract securities, in the form of interests in Cen-Tex, to the general public, absent any compliance with federal securities laws. The defendants' sales have been conducted through public advertising in magazines and newspapers, and numerous websites on the Internet. Offering materials and advertisements, including the Internet websites, as well as oral solicitations conducted by Klion, Alaniz or their agents, are all sent or transmitted by the means or instrumentalities of interstate commerce, including use of the interstate wires, or the U.S. Mails. Additionally, the defendants have encouraged investors to recruit other investors by offering a "pyramid" or multi-level distribution structure. Cen-Tex offers to pay a "finders fee" for to participants, up to five levels, for investments made by new participants; offering materials represent that, with compounded interest, investors could earn over 49% per year of the total funds invested by referral. In an interview with a Commission representative, Klion admitted raising at least \$2.7 million from approximately 1,400 investors residing in Texas and numerous other states through these solicitation efforts. None of the defendants' investment contract securities have been registered with the Commission, and their use

of a public solicitation to conduct an offering of this magnitude denies them a claim of any exemption from securities registration.

7. Cen-Tex is purportedly a "Pure Contract Trust" that defendants claim is completely outside the purview or jurisdiction of any "Agent or Agency" of the U.S. Government, or any U.S. District Court. By engaging in "non-statutory", i.e., offshore or foreign, investments, Cen-Tex would both generate huge investment returns, and avoid payment of federal income tax; additionally, the defendants stated that Cen-Tex would not report returns or profits paid or accrued to investors to the Internal Revenue Service. To further this apparent secrecy, potential investors have been told that Cen-Tex was prevented by contract from disclosing information about the trader or the investments, and that investors would be prohibited from disclosing any information about the program to anyone. In fact, the defendants encouraged this conspiracy of silence to conceal the unlawful nature of their scheme from both investors and regulators or law enforcement officials.

8. Cen-Tex was to pool investors' funds to capitalize a trading account operated by Klion and a group of unidentified expert foreign securities traders. Supposedly, the traders possessed the ability to leverage the corpus of the Cen-Tex trust by various means, and then use the leveraged amounts to execute trades in foreign currencies, or in other unidentified "offshore special projects." The "trading process" would then be repeated continuously to realize returns represented to be at least 400% per annum

(indeed, some of the "special projects" were represented by Klion to generate returns of as much as 2,000% per annum). Cen-Tex would share these returns with investors, paying on a graduated scale ranging from 80% to 200% per annum, for investments as small as \$250. Investors were given the option of either receiving monthly "dividend" payments of approximately 7% per month, or allowing their investments and the putative profits to accrue and compound. Investors were also told they could redeem their investments and returns, in whole or part, after a six-month "stabilization" period.

8. Klion and Alaniz have represented that virtually all of Cen-Tex's investments are guaranteed by one of the "Top 100 world banks," and that the remainder of its investments are guaranteed by unidentified wealthy business partners, or by the governments of foreign countries. According to the defendants, there is very little risk associated with an investment in Cen-Tex.

9. By virtue of these extraordinary returns (based in part on the purportedly tax-free nature of the returns); the "dividend" payment, accrual and redemption options; and the guarantees and the low risk associated with an investment in Cen-Tex, Klion and Alaniz have touted the Cen-Tex program as a "private retirement fund" that will provide for the retirement financial needs of participants. Through monthly newsletters, the defendants have encouraged investors to add to their existing investments and even encouraged investors to borrow funds to place in the program, to provide additional retirement income. Additionally, Klion and Alaniz have encouraged new investments by

representing that the profits derived from the trading activities has been higher than expected and have announced increases in the original guaranteed income rates on several occasions. The defendants claim to have made numerous millionaires with the Cen-Tex program, promising that investments of as small as \$1,000 (in fact, Cen-Tex states it will accept investments as small as \$250, and then permit additional contributions in any amount), will grow to almost \$1,000,000 in 10 years, and over \$84 million in 15 years, or provide monthly dividends beginning at \$45 per month, and increasing to \$4,350 over the same 15 year period.

10. None of the Cen-Tex offering materials contain any manner of financial statement or information regarding revenues, and neither Klion nor Alaniz orally provided anything more than general statements as to Cen-Tex's financial condition. Cen-Tex's banking records reveal that practically all of the funds deposited into its accounts -- approximately \$2.7 million -- consist of investors' funds, and that only a few thousand dollars (generally in separate deposits of less than \$300) have been deposited from offshore banks. Based on the most recently obtained records, only approximately \$110,000 remains in Cen-Tex's U.S. accounts, although at least \$500,000 was transferred to an account in Nassau, Bahamas during April 1998, and \$500,000 was transferred to another account within the past two weeks. A significant portion of the money the defendants raised from investors has been spent on "Ponzi" payments to other investors, including nearly \$30,000 in May 1998 alone, and, as

discussed below, on Klion's and Alaniz's personal expenses; upon information and belief, Cen-Tex does not have sufficient resources to repay investors' contributions, much less the promised returns or profits.

11. Simply put, trading programs such as that offered by the defendants defy commercial reason, and plainly do not exist. Their "Pure Contract Trust" is a sham: there are no legitimate "foreign traders"; there are no legitimate trading contracts, and, most importantly, there are no means for the defendants to generate the promised "safe" trading profits they use as an inducement to bilk the innocent public.

RECENT EVENTS AND ACTIVITIES

12. In May 1998, Commission representatives contacted Klion seeking information concerning Cen-Tex's activities. Klion initially agreed to provide information, but then refused voluntary cooperation. Subsequently, the Commission issued administrative subpoenas calling for document production and testimony; Cen-Tex and Klion have, through recently retained counsel, refused to comply with these lawfully issued subpoenas. Since the Commission representatives' first contact with Klion, however, he and Alaniz have stepped-up their efforts to remove themselves and Cen-Tex's business and, more importantly, money, to outside the jurisdiction of any U.S. district court. On May 29, 1998, Klion and Alaniz presented themselves at National Bank in Copperas Cove, Texas, seeking notary services to attest to applications for citizenship

to the Commonwealth of Dominica, and for an affidavit regarding a purchase of property in St. Christopher -- Nevis, in the West Indies.

13. As previously discussed, Klion's and Alaniz's banking transactions and recent transfers of funds are both noteworthy, and further demonstrative of their fraudulent intentions. On April 13, 1998, Klion instructed the transfer of \$500,000 to an account in Barclays' Bank, in Nassau, Bahamas. On April 21, 1998, Klion issued a \$200,000 check from Cen-Tex's main account, and opened another account at a nearby bank; on April 28, 1998, as soon as the funds were cleared, Klion caused the bank to issue a \$150,000 cashier's check, which has yet to be presented, and he and Alaniz have spent nearly all of the balance since then on various personal expenditures. On May 7, 1998, Klion directed issuance of two cashier's checks, \$100,000 and \$50,000, from Cen-Tex's main account, for the purchase of property in St. Christopher -- Nevis. On May 26, 1998, after the Commission's contacted Klion, he directed the transfer of \$500,000 to an account held in the name of DRS Development, at a bank in Aurora, Colorado; there is no listing for DRS Development with directory assistance in Aurora, Colorado. Review of Cen-Tex's banking records also reveal repeated instances of Klion's and Alaniz' personal uses of investors' funds. For example, since January 1998, Klion has spent \$52,000 for a 1998 Range Rover, and at least \$50,000 for jewelry for Alaniz, including a \$30,000 engagement ring. Klion and Alaniz make monthly mortgage and rent payments for their residences, and car payments, all from the Cen-Tex

account. They have taken Caribbean cruises, and several trips to Las Vegas, all paid for with investors' funds. Additionally, Klion has spent over \$25,000 for guns and artwork. As to the autos, jewelry, guns and art, Klion claims all of these are his personal assets, and not those of Cen-Tex. As well, both Klion and Alaniz have taken nearly \$50,000 in cash from the Cen-Tex accounts, none of which is accounted-for. None of these misapplications of investors' funds have been disclosed; indeed, investors have been falsely told that Cen-Tex's and Klion compensation would be earned from the "spread" between gross returns and the amounts paid to investors.

14. The defendants' activities are not those of responsible businesspersons. Their recent activities, especially those that occurred after Klion was served with Commission subpoenas, indicate that they have accelerated plans to leave the country with investors' funds. Absent the instanter relief requested herein, these defendants will continue their scheme and will relocate themselves and investors' funds outside the jurisdiction of this Court.

SUMMARY OF ALLEGATIONS

15. By engaging in the conduct detailed in this Complaint, Klion, individually and doing business as Cen-Tex, and Alaniz violated Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)] and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)], and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

JURISDICTION

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

PARTIES AND RELIEF REQUESTED

17. Klion, age 30, is a resident of Copperas Cove, Texas. He has operated numerous multi-level distribution plans during the past five years, and is the principal and promoter of Cen-Tex. Cen-Tex is purportedly a "Pure Contract Trust," organized under the "common law" during 1997. It is not incorporated in any of the United States, and is not authorized to do business under an assumed name in Texas. Cen-Tex maintains its offices in Copperas Cove, Texas, and Klion and Alaniz are the sole signatories on its known bank accounts.

18. Alaniz, age 42, is a resident of Copperas Cove, Texas. Alaniz is employed as an office manager for Cen-Tex, and at least one of Klion's other businesses. Alaniz recently became engaged to marry Klion.

19. The Commission brings this action pursuant to authority conferred on it by Sections 20(b) and 20(d) of the Securities Act [15 U.S.C. §§ 77t(b) and 77t(d)] and Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)] to obtain relief from Klion, individually and doing business as Cen-Tex, and Alaniz as follows:

- a.) A temporary restraining order, and preliminary and permanent injunction to prohibit Klion, individually and doing business as Cen-Tex, and Alaniz from engaging in acts and practices in violation of the Securities Act and the Exchange Act, as alleged in this Complaint.
- b.) An instanter order requiring Klion and Alaniz to temporarily surrender their passports, to prohibit them from fleeing the jurisdiction of this Court.
- c.) An instanter order requiring Klion and Alaniz to repatriate funds received from Cen-Tex investors.
- d.) An instanter order freezing assets owned or held by Klion, individually and doing business as Cen-Tex, and Alaniz to safeguard such assets for the benefit of customers or investors, and directing these defendants to provide a sworn accounting detailing the receipt and disbursement of funds obtained from Cen-Tex investors.
- e.) An order appointing a receiver pendente lite for the defendants, and authorizing the receiver to, among other things, marshal and hold funds and assets received or obtained by the defendant and others from the proceeds of the fraudulent scheme set out herein.
- f.) An order directing the defendants to disgorge any gains from the illegal activities described in this Complaint, and directing them to pay prejudgment interest on any disgorged amounts.

FIRST CLAIM

**FRAUD IN CONNECTION
WITH THE PURCHASE AND SALE OF SECURITIES**

**Violations of 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**

20. The allegations of paragraphs 1 through 14 of this Complaint are realleged and incorporated herein by reference as if set forth here verbatim.

21. Klion, individually and through Cen-Tex, and Alaniz, directly and indirectly, have been using and, unless enjoined, will continue to use the means and instrumentalities of interstate commerce and the mails:

- a.) to employ devices, schemes and artifices to defraud;
- b.) to make untrue statements of material facts and omit to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and
- c.) to engage in acts, practices and courses of business which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons, in connection with the purchase and sale of securities.

22. As a part of and in furtherance of the scheme, Klion, individually and through Cen-Tex, and Alaniz prepared, disseminated, or used promotional materials, account statements, investor correspondence, and oral presentations, that contained untrue

statements of material facts and misrepresentations of material facts, including, but not limited to, the following:

- a.) That trading programs such as those they offered and sold existed or were viable investments, and would provide rates of return of as much as 200 percent per annum, without risk of loss to principal due to guarantees by one of the "Top 100 world banks"; and
- b.) that Cen-Tex retained, or had contracts with, numerous unidentified, expert foreign securities traders, who would leverage investors' funds and conduct currency trading, or other investment activities.

23. As a part of and in furtherance of the scheme, Klion, individually and through Cen-Tex, and Alaniz 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:

That Klion, individually and through Cen-Tex, and Alaniz had misappropriated, and would misappropriate, funds invested in the Cen-Tex trading programs for numerous undisclosed purposes, including, but not limited to, payment of personal expenses, for "Ponzi" payments to prior investors and Cen-Tex's business expenses.

24. Klion, individually and through Cen-Tex, and Alaniz have intentionally, knowingly, or recklessly conducted the activities described in this claim. By reason of the

foregoing, they have acted with requisite scienter, and have violated and, unless enjoined, will continue to violate the provisions of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

SECOND CLAIM

FRAUD IN THE OFFER AND SALE OF SECURITIES

**Violations of Section 17(a) of the
Securities Act [15 U.S.C. § 77q(a)]**

25. The allegations of Paragraphs 1 through 14 of this Complaint are realleged and incorporated herein by reference, as is set forth here verbatim.

26. Klion, individually and through Cen-Tex, and Alaniz have, in the offer and sale of securities, used, and unless enjoined will continue to use, the means and instruments of transportation and communication in interstate commerce and the mails, directly and indirectly:

- a.) to employ devices, schemes or artifices to defraud;
- b.) to obtain money or property by means of untrue statements of material fact or omissions to state material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and
- c.) to engage in transactions, practices or courses of business which operate or would operate as a fraud or deceit.

27. As part of and in furtherance of this scheme, Klion, individually and through Cen-Tex, prepared, disseminated or used written promotional materials, confirmations, account statements, investor correspondence, and oral presentations, that contained untrue statements of material facts and omitted 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, including, but not limited to, those statements and omissions set out in paragraphs 22 and 23 above.

28. By reason of the foregoing, Klion, individually and through Cen-Tex, and Alaniz have violated, and unless enjoined, will continue to violate Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. 77q(a)(2) and (3)]. Furthermore, they have intentionally, knowingly or recklessly engaged in the acts and practices described in this claim, and acted with requisite scienter, so that they have violated and, unless enjoined, will continue to violate Section 17(a)(1) of the Securities Act [15 U.S.C. 77q(a)(1)].

DEMAND FOR JUDGMENT

WHEREFORE, the Commission respectfully requests that this Court:

I.

Temporarily, preliminarily and permanently enjoin Klion, individually and through Cen-Tex, and Alaniz, from violating Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder.

II.

Order instanter that Klion, individually and through Cen-Tex, and Alaniz make no payment or expenditure of funds, incur no additional liabilities, including draws on existing lines of credit or credit card charges, and effect no sale, gift, hypothecation or other disposition of any asset, in accordance with the application and order provided herewith. Furthermore, order instanter that these defendants repatriate any funds held at any bank or other financial institution not subject to the jurisdiction of this Court, and that they direct the deposit of such funds in the Registry of this Court, pending conclusion of this matter.

III.

Order instanter that Klion, individually and doing business as Cen-Tex, and Alaniz prepare and file with this Court a sworn accounting detailing all funds received from Cen-Tex investors by reason of the activities described in this Complaint, in accordance with the application and order provided herewith.

IV.

Order instanter that any bank, trust company, broker-dealer, credit card issuer or other depository institution holding accounts for or on behalf of Klion, Cen-Tex, or Alaniz make no transactions in securities (excepting liquidating transactions necessary to preserve wasting assets) and no disbursements of funds or securities, pending

further order of this Court, in accordance with the application and order provided herewith.

V.

Order instanter that Klion, individually and doing business as Cen-Tex, and Alaniz not move, alter or destroy any of their books or records.

VI.

Order instanter the appointment of a receiver pendente lite for Klion, Cen-Tex, and Alaniz, for the benefit of Cen-Tex investors, to marshal, conserve, protect and hold funds and assets obtained by the defendant and their agents, co-conspirators and others involved in this scheme, wherever such assets may be found, or, with the approval of the Court, dispose of any wasting asset, in accordance with the application and proposed order provided herewith.

VII.

Order instanter that Klion and Alaniz surrender their passports to the Clerk of this Court, to hold until further order of this Court.

VIII.

Order that the parties may commence discovery immediately, and that notice periods be shortened to permit the parties to require production of documents, or the deposition of any party or party-representative, on 72 hours notice.

IX.

Order Klion, individually and doing business as Cen-Tex, and Alaniz to disgorge all illegal gains obtained as a result of the violative course of conduct alleged in this Complaint, and pay prejudgment interest on any such amount.

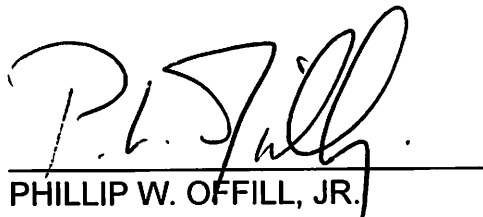
X.

Order Klion and Alaniz to each pay a civil money penalty.

XI.

Order such further relief as this Court may deem just and proper.

For the Commission, by its attorneys:



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