

IN THE UNITED STATES DISTRICT COURT  
FOR THE WESTERN DISTRICT OF PENNSYLVANIA

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SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

APPALACHIAN INVESTMENT CORPORATION,  
DENNIS G. CERILLI,  
FRANK A. DEBONE,  
DENNIS J. OSLOSKY,  
ROBERT C. WALTERS and  
JOHN W. HINTON,

Defendants.

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Civil Action No.

98-1506

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission") alleges for its Complaint the following:

SUMMARY

1. Beginning in November 1995 and continuing through August 1996, Dennis G. Cerilli ("Cerilli"), Frank A. DeBone ("DeBone"), Dennis J. Oslosky ("Oslosky"), Robert C. Walters ("Walters"), and John W. Hinton ("Hinton"), acting through Appalachian Investment Corporation ("Appalachian") and an affiliated entity, CCMI, Inc. ("CCMI"), engaged in a scheme to misappropriate money by soliciting investors through false and misleading statements to purchase the securities of Appalachian and CCMI.

2. As a result of this scheme, the defendants raised more than \$4.6 million from approximately 75 investors, most of whom

were elderly, and used these funds both for business and personal expenses, and to pay existing investors.

3. As a result of the conduct described herein, defendants Appalachian, Cerilli, DeBone, Oslosky, Walters and Hinton have engaged, and unless restrained and enjoined by this Court, will continue to engage in acts, transactions, practices, and courses of business which violate Section 17(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. 77q(a), Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. 78j(b), and Rule 10b-5, 17 C.F.R. 240.10b-5, thereunder.

#### JURISDICTION AND VENUE

4. The Commission brings this action pursuant to Section 20(b) of the Securities Act, 15 U.S.C. 77t(b), and Sections 21(d) and 21(e) of the Exchange Act, 15 U.S.C. 78u(d) and 78u(e), to enjoin such acts, transactions, practices, and courses of business, and for other relief.

5. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act, 15 U.S.C. 77v(a), and Section 27 of the Exchange Act, 15 U.S.C. 78aa.

6. Certain of the acts and practices constituting the violations alleged herein occurred within the Western District of Pennsylvania and elsewhere, and were effected, directly and indirectly, by making use of the means and instruments of transportation or communication in interstate commerce, or the means and instrumentalities of interstate commerce, or the mails.

## DEFENDANTS

7. Appalachian Investment Corporation, headquartered in Greensburg, Pennsylvania, was incorporated in Pennsylvania by defendants Cerilli and DeBone in December 1995. Cerilli and DeBone are the sole shareholders and directors of Appalachian and at all times relevant to this action, Appalachian was controlled by, and acted through, Cerilli and DeBone. Appalachian has never filed a registration statement with the Commission for any of its securities.

8. Dennis G. Cerilli resides in Greensburg, Pennsylvania. He is an officer, director and 50% shareholder of Appalachian, and officer, director and 47% shareholder of CCMI.

9. Frank A. DeBone resides in Mt. Union, Pennsylvania. He is an officer, director and 50% shareholder of Appalachian, and officer, director and 47% shareholder of CCMI.

10. Dennis J. Oslosky resides in Delmont, Pennsylvania. Oslosky sold the securities of Appalachian and CCMI.

11. Robert C. Walters resides in Jeannette, Pennsylvania. Together with Oslosky, Walters was the primary salesman of Appalachian and CCMI securities.

12. John W. Hinton resides in Shanksville, Pennsylvania. Hinton also sold securities on behalf of Appalachian and CCMI.

13. During the relevant time period, none of the individual defendants was licensed to sell securities.

## FACTS

### Background

14. In 1993, Cerilli and DeBone started Compu-Tech Advertising ("Compu-Tech"), a company which printed advertisements on cash register tapes for local businesses. In April 1995, Cerilli and DeBone incorporated CCMI in Pennsylvania and, in June 1995, CCMI began to do business as Compu-Tech. CCMI's only business was operating Compu-Tech. In October 1996, CCMI was forced into bankruptcy.

15. In December 1995, Cerilli and DeBone incorporated Appalachian in Pennsylvania. Appalachian's purported purpose, as established by Cerilli and DeBone, was to loan money to CCMI as needed for CCMI's growth and expansion. Appalachian, CCMI and Compu-Tech all operated out of the same offices in Greensburg, Pennsylvania. In addition, Compu-Tech operated offices in several cities throughout the United States.

16. Cerilli and DeBone controlled the bank accounts of Appalachian, CCMI and Compu-Tech, including those accounts into which investor funds were deposited and from which they were disbursed.

### The Fraudulent Scheme

17. Beginning in November 1995, and continuing through August 1996, Cerilli, DeBone, Oslosky, Walters and Hinton, acting through Appalachian and CCMI, engaged in a scheme to misappropriate investor funds raised through the fraudulent sale

of Appalachian and CCMI securities in the form of subordinated debentures, or debt instruments.

18. In furtherance of the scheme, Appalachian, Cerilli, Oslosky, Walters and Hinton made false and misleading statements to investors. They made, or caused to be made, material misrepresentations and omissions concerning, among other things: the degree of risk inherent in the investment; the intended use of proceeds; the financial condition of Appalachian and CCMI; and the criminal background of Cerilli, one of the principals.

19. Oslosky, Walters and Hinton were the primary salespeople for the Appalachian and CCMI securities. Cerilli also sold these securities. Cerilli and DeBone controlled Appalachian and CCMI and their bank accounts and, together with the other defendants, misappropriated a substantial portion of investor proceeds for their personal use.

20. As part of the scheme, the defendants targeted elderly people, many of whom lived alone. For example, many of the investors were over eighty years old, and at least one investor was 92 years old. Because many of the investors lived on fixed incomes, they were vulnerable to offers of additional income.

21. In order to purchase the investments in Appalachian and CCMI, many investors liquidated bank certificates of deposit, annuities and other investments, such as mutual funds.

22. Oslosky, Walters, Hinton, and sometimes Cerilli, went to the homes of the targeted investors and induced them to purchase what the defendants characterized as subordinated

debentures of Appalachian and CCMI by promising the investors a guaranteed annual rate of return of 9% or 10%, to be paid quarterly or monthly, depending on the investor's needs.

23. Investors received certificates reflecting the purported total value of their investments in Appalachian or CCMI. Cerilli signed all of the certificates.

24. To induce investors to purchase the securities of Appalachian and CCMI, the defendants assured investors that their investments were safe, in some cases comparing them to bank certificates of deposit. For example, Appalachian stated in a document given to investors that the investment would generate "a safe guaranteed 10% return per year."

25. The defendants gave documents to investors that provided little or no information about the nature or risk of the investment, the names and backgrounds of the principals, or any information about the business or financial condition of Appalachian, CCMI or Compu-Tech.

26. The documents also provided conflicting information about how the proceeds of the offering would be used. In one document, Appalachian stated that the purpose of the offering was to loan funds to CCMI at the rate of 15.5% per year in order to fund CCMI's "outstanding and reoccurring weekly receivables." In another document, Appalachian represented that the proceeds would be used "to repay a portion of the borrowing outstanding under the Company's back credit facility." The defendants provided no

information about any outstanding debt or "back credit facility" of Appalachian or its related entities.

27. Defendants Cerilli, Oslosky, Walter and Hinton knew, or were reckless in not knowing, that the representations described above were false and misleading.

28. Although DeBone did not directly solicit investors, he either knew, or was reckless in not knowing, that investors were induced to purchase securities by means of the material misrepresentations and omissions set forth in this Complaint. In addition, DeBone received and personally benefited from investor funds.

29. The defendants perpetuated the scheme by continuing to provide false and misleading information to investors, even after investors had purchased the Appalachian and CCMI securities.

30. Many investors received checks by mail purportedly representing monthly or quarterly interest payments earned on their investments. By making these payments, the defendants lulled investors into believing that their investments were generating a return when, in fact, they were not. Nor did the defendants disclose to investors that the interest payments were made with money received from new investors.

#### **Misappropriation of Investor Funds**

31. As a result of this scheme, Cerilli, DeBone, Oslosky, Walters and Hinton, acting through Appalachian and CCMI, raised more than \$4.6 million from approximately 75 investors, nearly all of which was used for personal and business purposes. None

of these funds was used to repay CCMI's "outstanding. . . back credit facility" and only a small portion was arguably loaned to CCMI as represented in the offering documents.

32. Appalachian directly received approximately \$3.4 million of the funds raised, and CCMI received approximately \$1.2 million.

33. Of the total investor funds raised, Cerilli and DeBone caused approximately \$1.6 million to be paid to Cerilli, DeBone, Oslosky, Walters and Hinton. Cerilli received \$696,255, including \$287,000 for the purchase of a house; DeBone received \$376,200; Oslosky received \$201,706; Walters received \$270,789; and Hinton received \$46,262.

34. In addition to the funds paid directly to Cerilli, DeBone, Oslosky, Walters and Hinton, Appalachian used investor funds to pay existing investors, and to pay so-called business and operating expenses of Appalachian, CCMI and Compu-Tech. Among these expenses were the leases of Jaguar, Mercedes and BMW automobiles, as well as the payment of the personal expenses of some of the defendants, including credit card bills, country club dues, salaries, utility bills and lawn care.

#### Cause of Action

#### Violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder

35. Paragraphs 1 through 34 are realleged and incorporated herein by reference.

36. From November 1995 through August 1996, defendants Appalachian, Cerilli, DeBone, Oslosky, Walters and Hinton, in



connection with the offer, purchase and sale of securities, directly and indirectly, by use of the means and instruments of transportation and communication in interstate commerce, or the means and instrumentalities of interstate commerce, or the mails, or the facilities of a national securities exchange:

- a) employed devices, schemes and artifices to defraud:
- b) obtained money and property by means of, and made, untrue statements of material fact, 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; and
- c) engaged in acts, transactions, practices, and courses of business which operated as a fraud and deceit upon offerees, purchasers and prospective purchasers of securities.

37. By reason of the foregoing, defendants Appalachian, Cerilli, DeBone, Oslosky, Walters and Hinton have violated and, unless enjoined, will continue to violate Section 17(a) of the Securities Act, 15 U.S.C. 77q(a), 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.

WHEREFORE, the Commission respectfully requests that this Court:

**I.**

Issue an injunction permanently restraining and enjoining defendants Appalachian, Cerilli, DeBone, Oslosky, Walters and Hinton, their agents, officers, servants, employees, attorneys, and those persons in active concert or participation with them, directly or indirectly, singly or in concert, from violating Section 17(a) of the Securities Act, 15 U.S.C. 77q(a), 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.

**II.**

Order defendants Appalachian, Cerilli, DeBone, Oslosky, Walters and Hinton to disgorge all unlawfully obtained proceeds, together with prejudgment interest, derived from the activities set forth in this Complaint, in accordance with a plan of disgorgement acceptable to the Court and to the Commission.

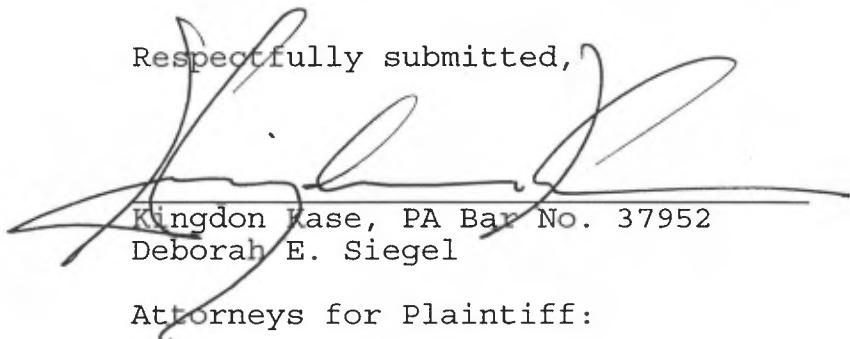
**III.**

Order defendants Appalachian, Cerilli, DeBone, Oslosky, Walters and Hinton to pay civil 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. 78u(d)(3), as a result of the violations set forth herein.

IV.

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

Respectfully submitted,



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Attorneys for Plaintiff:

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Dated: September 10, 1998