

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

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| U.S. SECURITIES AND EXCHANGE | |) | |
| COMMISSION, | |) | |
| Plaintiff, | |) | |
| | |) | Case No. |
| v. | |) | |
| | |) | |
| KEVIN J. SCHOTT, | |) | |
| | |) | |
| Defendant. | |) | |
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COMPLAINT

Plaintiff, the United States Securities and Exchange Commission (“Commission”) alleges as follows:

SUMMARY OF THE ACTION

1. Between September 2007 and May 2008, Defendant Kevin J. Schott (“Schott”), the former CFO of Zoltek Companies, Inc. (“Zoltek”), a Bridgeton, Missouri manufacturer of carbon fibers, circumvented Zoltek’s internal accounting controls and caused Zoltek to make two payments totaling \$250,000 to an outside consultant despite Zoltek’s CEO’s explicit instruction not to make the payments. Instead of following Zoltek’s internal controls which required the CEO to approve all wire transfers originated in the United States for over \$5,000 originated in the United States, Schott approached the controller of Zoltek’s Hungarian subsidiary on two separate occasions and instructed him to wire \$175,000 and \$75,000, respectively to the consultant’s companies. On both occasions, Schott told the controller that the payments were for another purpose. To further hide the payments from Zoltek’s CEO, Schott created a false document to support

the payments. As a result of the way he characterized the payments that he made to the consultant, Schott caused Zoltek to make false entries into its books and records. Schott also provided management representation letters to Zoltek's external auditors and certifications to the public for Zoltek's fiscal year ended on September 30, 2007, and for Zoltek's first quarter ended on December 31, 2007, which falsely stated that he was not aware of any violations or possible violations of any regulations by anyone with a significant role in Zoltek's internal financial controls.

2. By circumventing Zoltek's internal accounting controls, causing Zoltek to improperly record the two payments in its books and records, and providing false certifications to Zoltek's external auditors and to the public, Schott violated Section 13(b)(5) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78m(b)(5)] and Rules 13a-14, 13b2-1 and 13b2-2 [17 C.F.R. 240.13a-14, 240.13b2-1 and 240.13b2-2] thereunder.

3. The Commission seeks an order enjoining Schott from future violations of the federal securities laws and imposing a civil money penalty.

JURISDICTION AND VENUE

4. The Court has jurisdiction over this action pursuant to Sections 21, and 27 of the Exchange Act [15 U.S.C. §§ 78u and 78aa]. Schott, directly or indirectly, has made use of the means and instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange in connection with the acts, practices and courses of business alleged in this Complaint.

5. Venue is proper in this District pursuant to Section 27 of the Exchange Act [15 U.S.C. §78aa] because the acts and transactions constituting the violations

alleged in this Complaint occurred within the Eastern District of Missouri and because Schott resides within the district.

DEFENDANT

6. Kevin J. Schott, age 44, resides in Creve Coeur, Missouri. Between May 2004 and May 2008, Schott was employed as the CFO of Zoltek. Among other things, Schott's job responsibilities included preparing, reviewing and signing Zoltek's filings with the Commission, reviewing and signing management representation letters to Zoltek's external auditors, supervising the controller of Zoltek's Hungarian subsidiary, raising additional capital for Zoltek's operations from private investors and developing and implementing Zoltek's internal accounting controls. Schott was a certified public accountant licensed in Missouri, but his license is now inactive.

RELEVANT ENTITY

7. Zoltek Companies, Inc. is a Bridgeton, Missouri-based manufacturer of carbon fibers used in brake pads and wind turbine blades. Zoltek also has operations in several other countries, including a subsidiary located near Budapest, Hungary. At all relevant times, Zoltek's stock has been registered pursuant to Section 12(b) of the Exchange Act and has traded on the NASDAQ under the ticker symbol ZOLT.

FACTS

A. Schott Knowingly Circumvented Zoltek's Internal Accounting Controls

8. In September 2005, Zoltek entered into an agreement with a St. Louis-based financial consultant to raise funds for Zoltek from his hedge fund clients. The agreement stated that Zoltek would pay the consultant an additional "tail" fee of \$250,000 if it received any additional funds from the consultant's clients during the

following three years.

9. In August 2007, Zoltek entered into a separate agreement for funding with one of the consultant's hedge fund clients. This agreement excluded the consultant. When the consultant learned about Zoltek's agreement with his client, he called Schott and demanded that Zoltek pay him the \$250,000 he was owed pursuant to his prior agreement. The consultant told Schott that he would sue Zoltek if it did not pay him the \$250,000 fee.

10. Schott told Zoltek's CEO that he believed that Zoltek owed the consultant \$250,000 based on the 2005 agreement. Zoltek's CEO told Schott not to pay any money to the consultant.

11. On September 3, 2007, despite the CEO's instruction, Schott contacted the controller of Zoltek's Hungarian subsidiary by email and instructed the Hungarian controller to wire \$175,000 to a bank account controlled by the consultant. Schott's email to the Hungarian controller indicated that the payments were for another purpose. The Hungarian controller wired the payment the next day.

12. At the time Schott instructed the Hungarian controller to wire money to the consultant, Schott knew that Zoltek's internal accounting controls required Zoltek's CEO to authorize all wire transfers over \$5,000 that were initiated in the United States. The internal controls for Zoltek's Hungarian subsidiary did not impose a similar requirement.

13. After the consultant received the \$175,000 payment, he continued to contact Schott and demand that Zoltek pay the remaining \$75,000 of his fee.

14. On January 22, 2008, Schott sent another email to Zoltek's Hungarian

controller instructing the controller to wire \$75,000 to a different bank account controlled by the consultant. As with the first wire, Schott used Zoltek's Hungarian subsidiary to bypass the requirement that Zoltek's CEO approve the payment and told the Hungarian controller that the payment was for another purpose.

15. In late January 2008, after the Hungarian controller wired the \$75,000 to the consultant, the Hungarian controller emailed Zoltek's CEO and asked him to ratify the two wires. Over the next three months, Zoltek's CEO sent Schott several emails asking him to explain why the two wires were sent from Zoltek's Hungarian subsidiary. Schott ignored the CEO's requests.

16. In late April 2008, Zoltek's CEO demanded that Schott meet with him and explain the purpose of the two wires to the consultant from Zoltek's Hungarian subsidiary. Instead of explaining that the wires were for the \$250,000 owed to the consultant pursuant to the September 2005 agreement, Schott created a false document which showed that the payments were for another purpose.

17. On May 2, 2008, after Schott gave the false document to Zoltek's CEO, the CEO quickly determined that the document was false and that the payments were for the consultant. He then asked Schott to resign and to repay Zoltek the \$250,000 that Schott had transferred to the consultant. Schott agreed to resign and gave the CEO a personal check for \$250,000 that day.

B. Schott Knowingly Caused The Falsification Of Zoltek's Books, Records And Accounts

18. By misrepresenting the purpose of the payments in his emails to Zoltek's Hungarian controller, instead of telling him that the payments related to the 2005 agreement with the consultant, Schott caused Zoltek to improperly record the two

payments into its books and records.

19. Schott also created a false document to make it look like the payments to the consultant were for another purpose.

20. On May 5, 2008, Zoltek filed a Form 8-K with the Commission stating, among other things, that the two wires totaling \$250,000 made by Schott were not properly authorized or correctly reported in Zoltek's books and records and that its financial statements filed with the Commission for the year ended September 30, 2007 and the quarter ended December 31, 2007 could not be relied upon by the public because of the unauthorized payments.

21. On June 26, 2008, Zoltek amended its annual report filed with the Commission to disclose that, among other things, it had amended its books and records by re-recording the two wires from Zoltek's Hungarian subsidiary in Zoltek's financial statements as "other expenses."

C. Schott Falsely Certified Zoltek's Form 10-Q And Form 10-K

22. As CFO, Schott was responsible for Zoltek's financial reporting and was required to certify Zoltek's periodic filings, including its Forms 10-K and 10-Q, to the Commission. As part of Zoltek's certification, Schott was required to disclose knowledge of "any fraud, whether or not material, that involves management or other employees who have a significant role in [Zoltek's] internal control over financial reporting."

23. On December 7, 2007, Zoltek filed its annual report with the Commission on Form 10-K for the year ended on September 30, 2007. Schott signed and certified Zoltek's financial statement filed with the Commission for the fiscal year ended

September 30, 2007.

24. On February 11, 2008, Zoltek filed a Form 10-Q for the first quarter of 2008 ended on December 31, 2007. Schott signed and certified Zoltek's financial statement filed with the Commission for Zoltek's first quarter which ended on December 31, 2007.

25. At the times he certified Zoltek's financial statements for year-end 2007 and the first quarter of 2008, Schott knew that he had circumvented Zoltek's internal controls and had caused Zoltek to improperly record the payments to the consultant in its books and records. Despite this knowledge, Schott did not disclose the unauthorized payments in his certifications to the public or to Zoltek's auditors.

D. Schott Made False Or Misleading Statements To Zoltek's External Auditors

26. As CFO, Schott also signed management representation letters to Zoltek's external auditors for the fiscal year which ended on September 30, 2007 and the first quarter of 2008 which ended on December 31, 2007. In these management representation letters, Schott attested that he did not know of any fraud, suspected fraud or any violations or possible violation of any regulation affecting Zoltek.

27. At the time Schott signed the management representation letters, he knew that he had circumvented Zoltek's internal accounting controls to pay the \$250,000 to the consultant and that he had caused Zoltek to improperly record the payments to the consultant in its books and records.

COUNT ONE

Violations of Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] and Rules 13b2-1 and 13b2-2 Thereunder [17 C.F.R. 240.13b2-1 and 240.13b2-2]

28. The Commission realleges and incorporates by reference Paragraphs 1 through 27.

29. Schott violated Section 13(b)(5) of the Exchange Act by knowingly circumventing or knowingly failing to implement a system of internal accounting controls at Zoltek, or knowingly falsifying Zoltek's books, records, or accounts.

30. Schott violated Exchange Act Rule 13b2-1 by, directly or indirectly, falsifying or causing to be falsified, the books, records, and accounts of Zoltek subject to Section 13(b)(2) of the Exchange Act [15 U.S.C. § 78m(b)(2)].

31. Schott violated Exchange Act Rule 13b2-2 by making, or causing to be made, materially false or misleading statements or omissions to an accountant or auditor.

32. By engaging in the conduct described above, Schott violated Section 13(b)(5) of the Exchange Act and Rules 13b2-1 and 13b2-2 thereunder.

COUNT TWO

Violations of Rule 13a-14 [17 C.F.R. 240.13a-14]

33. The Commission realleges and incorporates by reference Paragraphs 1 through 27.

34. On December 7, 2007 and February 11, 2008, acting under Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 13a-14 promulgated thereunder, Schott certified Zoltek's Form 10-K for the year ended 2007 and Zoltek's Form 10-Q for the first quarter of 2008. Specifically, Schott certified that he had reviewed these reports and

that he had disclosed any fraud, whether or not material, that involved management or other employees who had a significant role in Zoltek's internal control over financial reporting.

35. When he certified Zoltek's Forms 10-K and 10-Q, Schott was aware that he had circumvented Zoltek's internal accounting controls to pay the \$250,000 to the consultant and that he caused Zoltek to improperly record the payments to the consultant in its books and records

36. By engaging in the conduct described above, Schott violated Rule 13a-14 promulgated under Section 302 of the Sarbanes-Oxley Act of 2002.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

I.

Issue an Order of Permanent Injunction restraining and enjoining Defendant Schott from violating Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] and Rules 13a-14, 13b2-1 and 13b2-2 [17 C.F.R. 240.13a-14, 240.13b2-1 and 240.13b2-2];

II.

Order Defendant Schott to pay civil penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d)(3)];

III.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable applications or motions for additional relief within the Court's jurisdiction; and

IV.

Grant such other relief as this Court deems just and appropriate.

Respectfully Submitted,



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