

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

SECURITIES AND EXCHANGE COMMISSION
100 F Street NE
Washington, DC 20549,

Plaintiff,

v.

JONATHAN C. GILCHRIST,

Defendant.

C.A. No. 4:13-cv-163

COMPLAINT

Plaintiff Securities and Exchange Commission (the “Commission”) alleges that:

NATURE OF THE ACTION

1. From December 2007 through April of 2008, Jonathan C. Gilchrist (“Gilchrist”) effected unregistered offers and sales in, and manipulated the market for, the securities of The Alternative Energy Technology Center, Inc. (“AETE” or the “Company”), a Delaware corporation with its principal place of business in Texas whose stock was quoted on the Pink Sheets on an unsolicited basis during the relevant time period.

2. While serving as the Company’s president and chairman, Gilchrist authorized a 50:1 reverse stock split of the Company’s stock, which had the effect of strengthening his control over the Company’s public float. He subsequently authorized the unregistered offer and sale of six million Company shares at a deep discount to himself and to two entities that he controlled through a sham stock offering (the “Offering”). Gilchrist claimed the Offering was exempt from registration pursuant to Rule 504 of Regulation D [17 C.F.R. §§ 230.504] (“Regulation D”) of

the Securities Act of 1933 [15 U.S.C. § 77a] (“Securities Act”). However, no registration statement pertaining to the Offering was on file or in effect with the Commission, and the securities were not subject to any exemption from registration, such as is provided in Regulation D. After the Offering, Gilchrist employed three different brokerage accounts that he controlled to fraudulently manipulate the price of Company stock by effecting a series of 25 wash trades over a period of two months. Gilchrist effectively raised the price of thinly traded AETE securities by buying and selling them to himself. As the campaign of wash trades wound down, Gilchrist arranged for the promotion of AETE shares to the public in an attempt to further raise the share price.

3. Together, the wash trades and the touting campaign helped to drive the Company’s per share price from \$1.00 to \$3.75 the day before the Commission suspended trading in AETE stock on April 2, 2008. During this time period, Gilchrist made unregistered sales of 229,661 AETE shares, resulting in illicit proceeds of \$692,146.38.

4. By engaging in such conduct, Gilchrist violated Sections 5(a), 5(c), 17(a)(1) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), 77q(a)(1) and 77q(a)(3)] and Section 10(b) of the Securities Exchange Act of 1934 [15 U.S.C. § 78j(b)] (“Exchange Act”) and Exchange Act Rules 10b-5(a) and (c) thereunder [17 C.F.R. §§ 10b-5(a) and (c)].

5. Unless restrained and enjoined by this Court, Gilchrist will continue to engage in transactions, acts and practices that violate these provisions of the federal securities laws. The Commission seeks permanent injunctions against future violations and other relief requested in this Complaint.

JURISDICTION AND VENUE

6. This Court has jurisdiction over this action pursuant to Section 22(a) of the

Securities Act [15 U.S.C. § 77v(a)] and Sections 21(d)(1), 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d)(1), 78u(e) and 78aa].

7. In connection with the transactions, acts and practices described in this Complaint, Gilchrist, directly or indirectly, used the means or instrumentalities of interstate commerce, the mails, or the facilities of a national securities exchange.

8. Venue is proper under Section 22 of the Securities Act [15 U.S.C. § 77v] and Section 27 of the Exchange Act [15 U.S.C. § 78aa] because the transactions, acts, practices and courses of business described below occurred within the Southern District of Texas.

DEFENDANT

9. Jonathan C. Gilchrist, age 61, was president and chairman of the Company from November 17, 2007 through at least January 9, 2008. He is an attorney whose license to practice in Texas was suspended in January 2008 for administrative reasons. He resides in Houston, Texas.

FACTS

A. Gilchrist Effects an Unlawful Offering of AETE Stock

10. On or about December 3, 2007, when the Company was known as Mortgage Xpress, Inc., its board of directors (comprised of Gilchrist, as president and chairman, as well as the corporate secretary) purportedly authorized a 50:1 reverse stock split of the Company's stock, which became effective on or about January 17, 2008.

11. The split had the immediate effect of increasing the Company's per share price from \$0.02 to \$1.00. It also enabled Gilchrist to further consolidate his control of the Company's public float, as described more fully below.

12. Just over two weeks later, on or about December 20, 2007, Gilchrist purportedly

convened a special Company board meeting, during which Gilchrist and the board purportedly authorized two important corporate actions.

13. First, the board approved an agreement to conduct a reverse merger of the Company with Meridian Biorefining, Inc., a Nevada corporation, to be completed on or about January 1, 2008. The surviving entity would be named The Alternative Energy Technology Center, Inc.

14. Second, the board authorized the issuance of six million shares of AETE common stock to purported “accredited investors” (the “Offering”). Gilchrist himself was to receive 2.4 million shares in the Offering; the remainder were to go to Hepplewhite Corporation (“Hepplewhite”) (2.4 million shares) and Cobalt Services, Inc. (“Cobalt”) (1.2 million shares).

15. At the time of the board’s purported December 20, 2007 authorization, Hepplewhite was a private investment company incorporated in Texas and based in Houston. Gilchrist was its chairman, sole director and de facto president. Its majority shareholder was The Business Factory, a private Houston-based investment company incorporated in Nevada. Gilchrist was president and chairman of that company, too, and owned or controlled at least 16% of The Business Factory’s shares.

16. At the time of the board’s December 20, 2007 authorization of a merger to establish AETE, Cobalt was a private Houston-based investment company incorporated in Nevada whose nominal president was a law student who had interned one summer for Gilchrist. Its sole shareholder was The Business Factory.

17. The reverse merger creating AETE was concluded on or about February 7, 2008. From at least November 2007 through the merger, the Company was a dormant shell with no significant operations, bank accounts or business activity.

18. In order to effect the profitable market manipulation of AETE stock described herein, Gilchrist needed to receive the stock as quickly as possible and ensure that the shares were not subject to any kind of restriction on resale.

19. However, Section 5 of the Securities Act generally requires that securities must have a registration statement on file and in effect with the Commission describing the company, its products, its markets and providing audited financial information, unless an exemption to this registration requirement applies. Additionally, shares that are exempt from registration may still be subject to restriction on resale and subject to a holding period if they are sold to an affiliate of the issuer.

20. In general, transfer agents, who issue share certificates on behalf of corporate issuers, require an opinion letter from legal counsel explaining why a security should be exempt from the registration requirements of Section 5, and why shares should be issued without restrictive legend.

21. Gilchrist sought to rely on the exemption provided in Rule 504 of Regulation D to claim exemption of AETE securities from both state and federal registration requirements. Rule 504 exempts offerings not exceeding \$1 million, but specifically excludes from the exemption “a development stage company that either has no specific business plan or purpose or has indicated that its business plan is to engage in a merger or acquisition with an... other entity or person.” Rule 504(a)(3) [17 C.F.R. § 230.504(a)(3)].

22. In order to induce AETE’s transfer agent to issue the six million shares in the Offering, Gilchrist retained an attorney to provide an opinion letter to the transfer agent opining that the Offering qualified for a Rule 504 exemption from registration and that the shares should be issued without restrictive legend because the subscribers for the shares were not affiliates of

the Company. The attorney produced such a letter dated January 9, 2008.

23. Gilchrist forwarded this opinion letter to the Company's transfer agent with an undated cover letter, which he signed as Company president, with instructions to issue share certificates without restrictive legend to himself, Hepplewhite and Cobalt pursuant to the Offering.

24. On or about January 14, 2008, the transfer agent expressed concerns about Gilchrist being an affiliate of the Company (by virtue of having been an officer and director of the Company at the time of the Offering's authorization) and about required holding periods under Texas state law for sales of shares to accredited investors.

25. In an effort to alleviate the transfer agent's concerns, Gilchrist emailed the transfer agent on January 14 with his own interpretation of Regulation D of the Securities Act, noting correctly (but irrelevantly) that federal law preempts any Texas state law holding periods for restricted securities.

26. In further support, Gilchrist had his attorney write a second opinion letter, dated January 23, 2008 which conceded that Gilchrist was an affiliate of the Company, but which maintained that Hepplewhite and Cobalt were not affiliates.

27. Since the Company was a shell with explicit plans to merge with another entity, the Offering did not qualify for a Rule 504 exemption from registration.

28. Furthermore, Hepplewhite and Cobalt were affiliates of the Company by virtue of their relationship to Gilchrist, and thus the resales of their shares were restricted and subject to compliance with Rule 144 of Regulation D [17 C.F.R. §230.144] and its holding period for restricted securities.

29. Nonetheless, on or about February 5, 2008, the transfer agent issued stock

certificates representing all six million shares of the Offering. Gilchrist's 2.4 million shares were issued with restrictive legend, but the 2.4 million shares issued to Hepplewhite and the 1.2 million shares issued to Cobalt were issued without restrictive legend.

B. Gilchrist Uses Wash Trades To Drive Up AETE's Stock Price

30. The Offering, combined with the pre-Offering reverse stock split, facilitated Gilchrist's gaining control of at least 94% of the AETE's public float in early February 2008.

31. On or about January 18, 2008, in anticipation of being in a position to control the market for AETE securities, Gilchrist embarked on a campaign of 25 wash sales over a period of two months in an effort to increase AETE's per share price.

32. A market order calls for the immediate execution of the trade at the prevailing bid or ask; a limit order calls for the purchase or sale to be executed at a minimum or maximum price set by the trader.

33. Gilchrist effected his first wash trade on or about January 18, 2008, the day after the reverse stock split boosted the Company's per share price from \$0.02 to \$1.00.

34. Using a brokerage account held in his own name and over which he had sole trading authority, in which he held AETE shares acquired on the open market from November 2007 through January 2008, Gilchrist placed a limit order at just after 9 a.m. on January 18 to sell 20,000 shares of AETE at \$1.10 per share, ten cents above the prevailing market price.

35. At 1:20 p.m. the same day, acting through a second brokerage account held in the name of The Internet Business Factory, Inc. (the original name of The Business Factory) over which he had sole trading authority, Gilchrist placed a market order to buy 500 of those same shares at \$1.10 per share.

36. Together with a second pair of buy and sell orders using the same two brokerage

accounts on the same day, Gilchrist essentially sold 2,000 AETE shares to himself and raised the price of AETE by ten cents in the process. Gilchrist's trading activity represented 100% of AETE's trading volume on the day.

37. These trades became the template for each of Gilchrist's successive wash trades over the next two months, which are reflected in Exhibit A to this Complaint. Gilchrist would typically place large sell orders of 20,000 or more shares with limit prices set above the prevailing market price, and then place small market orders to buy 100 or 200 shares (through either the same or a different account that he controlled) to ensure trade executions at higher prices.

38. On several individual trading days, Gilchrist's activity (wash trades and additional non-wash trades) accounted for 100% of the reported retail trading volume in the market for AETE securities. All told, Gilchrist's activity accounted for approximately one-third of the total reported trading volume during this time period, all at a time when Gilchrist controlled nearly all of AETE's public float. In this manner, Gilchrist incrementally and methodically moved the price of AETE.

39. Gilchrist's last wash trade occurred on or about March 14, 2008, when he caused a brokerage account in Hepplewhite's name, over which he had sole trading authority, to purchase 100 shares from itself at \$2.41 per share.

C. Gilchrist Effects Touting Campaign

40. In addition to the wash trades, Gilchrist arranged for the promotion of AETE shares to the general public and drum up interest in the stock.

41. On or about February 14, 2008, Gilchrist, who by this point had stepped down as president and chairman of AETE and thus was contracting for a touting campaign merely as an

AETE shareholder, signed a consulting agreement with Parabolic, LLC (“Parabolic”), pursuant to which Parabolic would initiate an “investor awareness” campaign for the Company.

42. On or about February 15, 2008, Gilchrist transferred 50,000 AETE shares from an account in Hepplewhite’s name to Parabolic as compensation for the “investor awareness” campaign.

43. Similarly, on or about February 28, 2008, on information and belief, Gilchrist entered into an agreement with First Equity Group, Inc. (“First Equity”), pursuant to which First Equity would produce a “marketing campaign to new [AETE] investors.”

44. The agreement with First Equity was purportedly signed by an AETE officer. However, new Company management denied ever having agreed to any touting campaign, and on February 28, 2008, The Business Factory wired \$20,000.00 to First Equity, which represented the contracted-for compensation amount for the touting campaign.

45. The touts from Parabolic and First Equity began in early March 2008 through blast emails and stock watch reports disseminated through various outlets. At least one email blast or report on behalf of AETE went public on March 3, 4, 6, 10, 11, 17, 24 and 28.

46. For example, a release dated March 17, 2008 announced that AETE “plans to produce ethanol for the U.S. market at less than \$1 per gallon,” despite the fact that ethanol was selling for approximately \$2.60 per gallon at the time and the typical production cost per gallon was approaching \$2.00, according to the release itself.

47. Similarly, a blast email sent on March 6, 2008 announced a price target of \$8-9 per share for AETE; the stock closed that day at \$2.08.

48. From January 17 through April 1, 2008, the final trading day before the Commission’s trading suspension in AETE securities took effect, the per share price of AETE

common stock rose from \$1.00 to \$3.75, an increase of approximately 275%. The bulk of this increase took place in March, in the wake of the touting campaigns, when the average daily trading volume increased from just over 7,300 shares in the first week of March to over 93,500 shares in the last five trading days before the trading halt on April 2, 2008.

D. Gilchrist Illicitly Profits from Unregistered Sales of AETE Stock

49. Gilchrist deposited Hepplewhite's 2.4 million shares into an account maintained in Hepplewhite's name, over which he had sole trading authority, and arranged for their reissuance on February 15, 2008 in the name of Cede & Co.

50. Four days later, on or about February 19, Gilchrist began transferring shares from the Hepplewhite account to four other accounts that he controlled and over which he had sole trading authority: one account in the name of Goldbrige Consulting LLC; one account in the name of the minor son of Gilchrist's ex-wife; and two separate accounts in the name of The Internet Business Factory, as The Business Factory was once known.

51. Through these accounts, Gilchrist sold 229,661 shares of AETE from February through early April, illicitly realizing gross profits of \$692,146.38 in unregistered sales. The sales were not exempt from the registration requirements and the shares were subject to restrictions on resale.

CLAIMS

1. Fraud in the Offer or Sale of Securities

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

52. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 51 above.

53. Gilchrist, directly or indirectly, singly or in concert, in the offer or sale of

securities, by the use of the means and instruments of transportation and communication in interstate commerce or of the mails, knowingly or with reckless disregard for the truth: (a) employed devices, schemes or artifices to defraud; or (b) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers of securities.

54. By engaging in the foregoing conduct, Gilchrist violated Securities Act Sections 17(a)(1) and 17(a)(3) [15 U.S.C. §§ 77q(a)(1) and 77q(a)(3)].

2. Fraud in Connection With the Purchase or Sale of Securities

**(Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and
Exchange Act Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5])**

55. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 51 above.

56. As alleged herein, Gilchrist, directly or indirectly, singly or in concert, by the use of the means or instrumentalities of interstate commerce, of the mails or of the facilities of a national securities exchange, in connection with the purchase or sale of securities, knowingly or with reckless disregard for the truth: (a) employed devices, schemes, and artifices to defraud; or (b) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon purchasers of securities and upon other persons.

57. By engaging in the foregoing conduct, Gilchrist violated Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and Exchange Act Rules 10b-5(a) and (c) thereunder [17 C.F.R. §§ 240.10b-5(a) and (c)].

3. Offer or Sale of Unregistered Securities

(Securities Act Sections 5(a) and 5(c) [15. U.S.C. §§ 77e(a) and 77e(c)])

58. The Commission realleges and incorporates by reference the allegations contained

in Paragraphs 1 through 51 above.

59. The AETE shares in the Offering constitute “securities” within the meaning of Section 2(a)(1) of the Securities Act [15 U.S.C. § 77b(a)(1)].

60. At all relevant times, the shares in the Offering were not registered in accordance with the provisions of the Securities Act and no exemption from registration was applicable.

61. Gilchrist, singly or in concert, directly or indirectly, made use of the means or instruments of transportation or communication in interstate commerce or of the mails to offer or to sell securities when no registration statement had been filed or was in effect as to such offers or sales of such securities and no exemption from registration was available.

62. By engaging in the foregoing conduct, Gilchrist violated Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

RELIEF REQUESTED

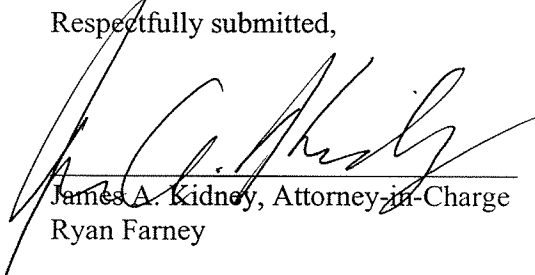
WHEREFORE, the Commission respectfully requests that this Court enter a final judgment that:

1. enjoins Gilchrist from violating Securities Act Sections 5(a), 5(c), 17(a)(1) and 17(a)(3) [15 U.S.C. §§ 77e(a), 77e(c), 77q(a)(1) and 77q(a)(3)] and Section 10(b) of the Securities Exchange Act of 1934 [15 U.S.C. § 78j(b)] (“Exchange Act”) and Exchange Act Rules 10b-5(a) and (c) thereunder [17 C.F.R. §§ 10b-5(a) and (c)];
2. orders Gilchrist to disgorge all illicit gains, with prejudgment interest;
3. orders Gilchrist to pay appropriate civil penalties pursuant to Securities Act Section 20(d) [15 U.S.C. § 77t(d)] and Exchange Act Section 21(d)(3) [15 U.S.C. § 78u(d)(3)];

4. permanently bars Gilchrist from participating in any offering of a penny stock, pursuant to Securities Act Section 20(g) [15 U.S.C. § 77t(g)] and Exchange Act Section 21(d)(6) [15 U.S.C. § 78u(d)(6)];
5. permanently bars Gilchrist from serving as an officer or director of an issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] or that is required to file reports pursuant to Section 15(d) of the Exchange Act [15 U.S.C. § 78o(d)], pursuant to Securities Act Section 20(e) [15 U.S.C. § 77t(e)] and Exchange Act Section 21(d)(2) [15 U.S.C. § 78u(d)(2)]; and
6. grants such other and further relief as this Court may deem just and proper.

Dated: January 23, 2013

Respectfully submitted,



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