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UNITED STATES DISTRICT COURT  
for the  
MIDDLE DISTRICT OF FLORIDA  
ORLANDO DIVISION

SECURITIES AND EXCHANGE  
COMMISSION,

Plaintiff,

v.

TWO-THIRDS INTERNATIONAL, INC.,  
PETER J. ZACCAGNINO III,  
JOHN L. KLEIN a/k/a JOHN KLEIN  
LOFFREDO, MERRILL H. KLEIN,  
and STERLING INTERNATIONAL  
BAHAMAS LTD.,

Defendants,

BEST SYSTEMS, INC. and  
WONDER GLASS PRODUCTS, INC.,

Relief Defendants.

98-1324-CIV-ORL-18A  
CIVIL ACTION No.

**COMPLAINT FOR INJUNCTIVE AND OTHER EQUITABLE RELIEF**

Plaintiff Securities and Exchange Commission (the "Commission") alleges:

### **Summary of the Action**

1. This case involves a scheme to defraud U.S. investors through the fraudulent offer and sale of historical bonds which are collectible memorabilia with essentially no investment value. Peter J. Zaccagnino III ("Zaccagnino"), individually and through entities including Two-Thirds International, Inc. ("TTI"), offered and sold historical bonds to investors at prices up to \$330,000 each. Zaccagnino represented to purchasers of the bonds that the bond were worth millions of dollars and that such bonds could be placed into prime bank investment programs to generate investment returns. John L. Klein a/k/a/ John Klein Loffredo ("J. Klein") and Merrill H. Klein ("M. Klein"), individually and through entities including Sterling International Bahamas Ltd., ("Sterling"), provided authentications and valuations of historical bond documents which stated that the historical bonds were worth, in some instances, as much as \$12 billion. J. Klein, M. Klein and Sterling provided the valuations for use in the offer and sale of the bonds by others, including the offers and sales by Zaccagnino and TTI.

2. In connection with the offers and sales, the defendants have knowingly or recklessly made misrepresentations and omitted to state information concerning the value of the historical railroad bonds as investments, the ability to use such historical bonds in trading programs, and the existence of and investment returns from prime bank-type trading programs.

3. The defendants, directly and indirectly, are now and have been engaged in, and unless restrained and enjoined by this Court will continue to engage in, transactions,

acts, practices, and courses of business that violate 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].

4. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. §77t(b)] and Section 21(d) and (e) of the Exchange Act [15 U.S.C. § 78u(d) and (e)] for an order permanently restraining and enjoining Defendants and granting other equitable and legal relief.

#### **Jurisdiction and Venue**

5. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. §77u(a)] and Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§78u(e) and 78aa]. Venue lies in this Court pursuant to Section 22(a) of the Securities Act and Section 27 of the Exchange Act.

6. In connection with the transactions, acts, practices, and courses of business described in this Complaint, each of the defendants, directly and indirectly, has made use of the means or instrumentalities of interstate commerce, of the mails, and/or of the means and instruments of transportation or communication in interstate commerce.

7. Defendant Zaccagnino resides within this judicial district. Additionally, Defendant TTI maintains an office, which is believed to be its principal place of business, within this district. Moreover, both Relief Defendants are Florida corporations which are believed to have their principal places in this district. Finally,

certain of the transactions, acts, practices and courses of business constituting the violations of law alleged herein occurred within this judicial district.

### **Defendants**

9. Two-Thirds International, Inc. ("TTI"), is a British Virgin Islands entity believed to be controlled by Zaccagnino. TTI currently maintains an office in Kissimmee, Florida. TTI sold numerous historical bonds to investors for use in a prime bank-type trading program.

10. Peter J. Zaccagnino III ("Zaccagnino"), age 37, is a resident of Kissimmee, Florida. Zaccagnino owns a used car dealership. In March 1998, Zaccagnino filed for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code.

11. John Klein a/k/a/ John Klein Loffredo ("J. Klein"), age 55, is a citizen of Ecuador and a resident of Miami, Florida. J. Klein's curriculum vitae claims that he has a masters degree from a German university in architecture and engineering, and that he is trained as an architect. J. Klein was the president of Sterling International Deposit Corp. ("Sterling Deposit"), the predecessor entity to Sterling International Bahamas, Ltd., and signed numerous valuations in the names of both entities.

12. Merrill H. Klein ("M. Klein"), age 72, is a resident of Miami, Florida. M. Klein (who is believed to have no relation to J. Klein) was Sterling Deposit's "manager" and majority shareholder. M. Klein signed valuations in the name of Sterling Deposit, Sterling's predecessor.

13. Sterling International Bahamas Ltd. ("Sterling") is an international business

corporation with an address in Nassau, Bahamas. It is the successor corporation to Sterling International Deposit Corp., which was located in Miami, Florida. M. Klein and J. Klein are this entity's sole officers, shareholders, and beneficial owners. Sterling issued fraudulent valuations in the name of its predecessor, Sterling Deposit, from April 1998 to August 1998 and in its own name starting on about August 28, 1998.

#### **Defendants for Purposes of Relief**

14. Wonder Glass Products, Inc. ("Wonder Glass") is a Florida corporation of which Zaccagnino is a director. Zaccagnino transferred investor proceeds to Wonder Glass.

15. Best Systems, Inc. ("Best Systems"), is a Florida corporation believed to be controlled by Florida resident Sam Kram. Zaccagnino transferred investor proceeds to Best Systems.

### **FACTS**

#### **A. Background**

1. The historical bonds at issue in this action include, among others, bonds issued by the Chicago Saginaw and Canada Railroad Co. ("Saginaw") in 1873; the Richmond & York River Railroad Co. ("R&YR") in 1866; the Mad River & Lake Erie Railroad Co. ("Mad River") in 1855; and the Galveston Houston & Henderson Railroad Co. in 1855. These bonds were "gold backed bearer bonds" which were issued to finance the construction of railroad lines. The issuers of the bonds, variously, were

forced into bankruptcy, placed into receivership or otherwise defaulted on the bonds and the companies were sold. The interests of the bondholders were resolved, in most instances before the turn of the last century, and the obligation to pay on the bonds were extinguished. The successor railroad companies did not assume any obligations on the bonds. Currently, the historical railroad bonds are worth no more than a few hundred dollars each as collectibles.

2. The foreign bonds and government bonds at issue in this action include, among others, Peruvian, German and Chinese bonds. These bonds are similarly without value except as collectors' items.

**B. Fraudulent Offer and Sale of Historical Bonds by Zaccagnino and TTI and Their Promotion of Fictitious Prime Bank Trading Programs**

18. Between approximately October 1997 and at least June 1998, Zaccagnino offered and sold at least 74 different historical bonds to investors at prices ranging from \$14,000 to \$330,000 each and raised a total of \$4.8 million. The bonds were sold to at least 76, and possibly as many as 180, investors nationwide. Of the bonds offered by Zaccagnino, many were issued by United States railroads in the late nineteenth century, including R&YR, Mad River and Galveston, and others were issued by foreign governments or foreign entities.

19. Zaccagnino made a variety of false statements to investors including representations that the bonds had value as investments. Zaccagnino required that investors who purchased bonds from TTI obtain valuations of the bonds. Between April

and at least June 1998, Zaccagnino required at least some investors to obtain valuations from Sterling. From at least October 1997 and March 1998, Zaccagnino required valuations from another valuator, Gerald A. Dobbins (“Dobbins”). The valuations by Dobbins claimed that the bonds were worth between \$333,000 and \$908 million each while the valuations by Sterling claimed, as discussed further below, that the bonds were worth between \$492,000 and \$12 billion each. Zaccagnino adopted the valuation figures by including them in promotional documents provided to investors.

20. Zaccagnino represented that he would place the bonds into a prime bank-type trading program sanctioned by the Federal Reserve Board. Zaccagnino represented that the bonds would be used as collateral by European banks, which in turn would advance large amounts of money based on a percentage of the valuation. Zaccagnino claimed that the borrowed funds then would be used to purchase and sell “medium term notes” at an extremely high profit. Zaccagnino further represented in promotional documents that the bonds purchased would realize returns of approximately 10 percent of the valuation amount of the bonds, or up to \$94 million per bond within one year.

21. After selling the bonds to investors, Zaccagnino sent to them correspondence containing lulling statements. One such letter dated December 8, 1997, assured investors that “everyone will absolutely be paid what has been promised to them.” The letter also stated that “all of us at [TTI] are fully committed to making ours the first successful [trading] program ever in existence.” Further, a “holiday message” signed by Zaccagnino dated December 25, 1997 stated that “when the final curtain comes up, I

want to be there handing you a wire confirmation of the biggest payout you have ever seen in your life.” Recently, Zaccagnino has represented that investors would receive funds in November 1998.

22. The above statements were false and misleading. Zaccagnino and TTI acted knowingly, or at a minimum recklessly, in making such representations and repeating the fraudulent valuations by Sterling and FSDC when offering and selling the historical bonds to investors.

23. The historical railroad bonds offered and sold by Zaccagnino and TTI are worth no more than a few hundred dollars each as collectibles, have no investment value, and are virtually worthless as collateral. Further, prime bank trading programs are fictitious. The Federal Reserve Board has never sanctioned prime bank trading programs but, instead, issued an investor alert in October 1993 stating that such schemes are fraudulent. Further, Zaccagnino’s lulling statements promising to make the promised payments to investors lacked a reasonable basis.

24. Between November 1997 and June 1998, TTI transferred a total of \$1,081,000 and \$481,270 to relief defendants Best Systems and Wonder Glass, respectively. However, there is no evidence that Best Systems or Wonder Glass gave any valuable consideration for the funds or have any legitimate claim to them.

**C. Fraudulent Valuations Issued By Sterling**

25. Between at least April and August 28, 1998, Sterling, purportedly the “Authorized Master Curator for the Historical Document Trade,” issued at least 81 and



possibly as many as 263 reports purporting to authenticate, and provide “hypothecated” valuations for, historical bonds issued by 18 different United States railroads, the State of Mississippi, and two foreign entities. For the valuations, Sterling received at least \$395,508 between April and October 1998. Of the 81 valuation reports obtained by the staff, 23 concerned valuations of Saginaw or Mad River bonds, or bonds issued by the Marietta & North Georgia Railway Co. (“M&NG”).

26. The bonds were submitted to Sterling by, among others, Zaccagnino and investors who were required to obtain a valuation before they could participate in alleged trading programs. Sterling’s valuations fraudulently informed investors that the individual bonds were worth between \$492,000 and \$12 billion. Sterling’s valuations falsely assumed both that someone was obligated to pay the bonds, and that the bonds were payable in gold bullion at current prices, i.e., \$280-290 per ounce.

27. Sterling’s valuation documents further stated that the “International Bond and Share Society books” had supplied Sterling with information about the bonds, and that the valuations had been prepared “in accordance with the standards for accounting and review services issued by the American Institute of Public Accountants.” J. Klein as “Master Curator” signed at least 59 of Sterling’s valuation reports and M. Klein as “Manager” signed at least 6 of the valuation reports.

28. The statements contained in the valuation documents were false and misleading and J. Klein, M. Klein and Sterling acted intentionally, or at a minimum recklessly, in making the statements to investors.

29. No entity or government was obligated to pay on the bonds and, additionally with respect to the railroad bonds, the gold clause provisions are unenforceable.

30. Neither J. Klein nor M. Klein had any training or education relevant to authenticating or valuing historical documents. Sterling did not possess any books published by the International Bond and Share Society and did not own any instruments for examining the bonds. Finally the "American Institute of Public Accountants" does not exist.

31. In August 1998, J. Klein and M. Klein moved their valuation business to the Bahamas. Also in late August, J. Klein wrote a letter addressed to Sterling's clients stating that Sterling would continue to "certify and do valuation on [sic] all your historical bonds" in a new location in the Bahamas, which "guaranteed" that all information concerning the valuations and certifications would be "absolutely reserved and free of all external queries," and "not subject to external queries [sic] from any source."

### **FIRST CAUSE OF ACTION**

(Violations of Exchange Act §10(b) and Rule 10b-5)

32. Plaintiff repeats and realleges paragraphs 1 through 31 above.

33. Defendants TTI, Zaccagnino, J. Klein, M. Klein and Sterling, with scienter, in connection with the purchase or sale of securities, by the use of means or instrumentalities of interstate commerce or of the mails, directly or indirectly: (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of

material facts or 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; or (c) engaged in acts, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers of securities in violation 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.

34. By reason of the foregoing, Defendants TTI, Zaccagnino, J. Klein, M. Klein and Sterling violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and unless restrained and enjoined will continue to do so.

### **SECOND CAUSE OF ACTION**

(Violations of Securities Act §17(a)(1))

35. Plaintiff repeats and realleges Paragraphs 1 through 31 above.

36. Defendants TTI and Zaccagnino, with scienter, in the offer or sale of securities, by the use of means or instruments of transportation or communication in interstate commerce, or by the use of the mails, directly or indirectly employed devices, schemes or artifices to defraud in violation of Section 17(a)(1) of the Securities Act [15 U.S.C. §77q(a)(1)].

37. By reason of the foregoing, Defendants TTI and Zaccagnino violated Section 17(a)(1) of the Securities Act and unless restrained and enjoined will continue to do so.

### **THIRD CAUSE OF ACTION**

(Violations of Securities Act §17(a)(2) and (3))

38. Plaintiff repeats and realleges Paragraphs 1 through 31 above.

39. Defendants TTI and Zaccagnino, in the offer or sale of securities, by the use of means or instruments of transportation or communication in interstate commerce, or by the use of the mails, directly or indirectly (a) obtained money or property by means of untrue statements of material facts or omissions 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, or (b) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers of securities in violation of Section 17(a)(2) and (3) of the Securities Act [15 U.S.C. §77q(a)(2) and (3)].

40. By reason of the foregoing, Defendants TTI and Zaccagnino violated Section 17(a)(2) and (3) of the Securities Act and unless restrained and enjoined will continue to do so.

WHEREFORE, the Commission respectfully requests that this Court:

**I.**

Enter an injunction, preliminary during the pendency of this action and permanently thereafter, restraining and enjoining Defendants TTI, Zaccagnino, J. Klein, M. Klein and Sterling, their subsidiaries, officers, directors, agents, servants, employees, and attorneys-in-fact, and all persons in active concert or participation with them, and each of them, from violating, directly or indirectly, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

**II.**

Enter an injunction, preliminary during the pendency of this action and permanently thereafter, restraining and enjoining Defendants TTI and Zaccagnino, their subsidiaries, officers, directors, agents, servants, employees, and attorneys-in-fact, and all persons in active concert or participation with them, and each of them, from violating, directly or indirectly, Section 17(a) of the Securities Act.

**III.**

Order Defendants and Relief Defendants and their officers, agents, servants, employees and attorneys to disgorge all illegal gains, together with prejudgment interest.

**IV.**

Order Defendants to pay civil money penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. 78u(d)(3)].

**V.**

Grant such other relief as this Court may deem just or appropriate.

Dated: December 1, 1998



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