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2004 AUG -14 PM 3:15

21554 JUDGE DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA  
LOS ANGELES

1 Kenneth W. McCracken, Esq. (Pro Hac Vice)  
2 4900 Main, Suite 721  
3 Kansas City, Missouri 64112  
4 816-308-3313  
5 816-308-9643 (fax)

6 Richard Glaser, Esq. (Pro Hac Vice)  
7 1155 21st Street, N.W.  
8 Washington, D.C. 20581  
9 202-418-5383  
10 202-418-5519 (fax)

11 Kent Kawakami (Calif. Bar No. 149803)  
12 United States Attorney's Office  
13 Central District of California - Civil Division  
14 300 North Los Angeles Street  
15 Los Angeles, CA 90012  
16 213-894-4858  
17 213-894-2380 (fax)

18 Attorneys for Plaintiff  
19 Commodity Futures Trading Commission

20 **UNITED STATES DISTRICT COURT**  
21 **FOR THE CENTRAL DISTRICT OF CALIFORNIA**  
22 **WESTERN DIVISION**

23 Commodity Futures Trading Commission, )  
24 )  
25 Plaintiff, )  
26 )  
27 v. )  
28 Chase Commodities Corp., Lee Lagorio, )  
Excel Obando, and Universal Financial )  
Holding Corporation, )  
Defendants. )

Case No.: **CVO4-6463 PA**

(CWx)

**COMPLAINT FOR A  
PERMANENT INJUNCTION,  
OTHER EQUITABLE  
RELIEF AND CIVIL  
MONETARY PENALTIES**

Hearing Date: \_\_\_\_\_

Hearing Time: \_\_\_\_\_



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## II. SUMMARY

3. Since at least August 2003, Chase, through its associated persons (“APs”), including, but not limited to, David Kogan (“Kogan”), Alex Panameno (“Panameno”), Angelo Sven Senger (“Senger”), Travis Morpew (“Morpew”), Anthony Brancieri (“Brancieri”) and Deborah Kenney (“Kenney”) have been fraudulently soliciting customers to open commodity trading accounts introduced by Chase to trade options by knowingly misrepresenting, and failing to disclose material facts, concerning, among other things, (i) the likelihood that a customer would realize large profits from trading options; (ii) the risk involved in trading options; and (iii) Chase’s poor trading record. Defendants Lee Lagorio (“Lagorio”) and Excel Obando (“Obando”), listed as principals, and the president and compliance officer, respectively, of Chase, are liable under the Act as controlling persons since they had actual and constructive knowledge of the fraud and allowed it to continue.

4. Since at least April 2, 2003, Universal Financial Holding Corporation (“UFHC”) has served as guarantor for Chase with respect to its sale of options and, therefore, is jointly and severally liable for Chase's violations of the Act, 7 U.S.C. § 1 *et seq.*

5. Accordingly, pursuant to Section 6c of the Act, 7 U.S.C. § 13a-1, plaintiff Commission brings this action to enjoin defendants’ Chase, Lagorio and

1 Obando's unlawful acts and practices and to compel their compliance with the Act  
2 and Commission Regulations ("Regulations"), 17 C.F.R. § 1.1 *et seq.* (2004). In  
3 addition, the Commission seeks civil monetary penalties, restitution to customers  
4 for losses proximately caused by defendants Chase, Lagorio and Obando's fraud,  
5 disgorgement of defendants Chase, Lagorio and Obando's ill-gotten gains, and  
6 such other relief as this Court may deem necessary or appropriate.  
7

### 9 **III. REGULATORY BACKGROUND**

10  
11 6. The Act and Regulations establish various classifications of  
12 Commission registrants.

13  
14 7. An Introducing Broker ("IB") is any person who is "engaged in  
15 soliciting or in accepting orders for the purchase or sale of any commodity for  
16 future delivery on or subject to the rules of any contract market ...who does not  
17 accept any money, securities, or property." Section 1a(23) of the Act, 7 U.S.C.  
18 § 1a(23).  
19

20  
21 8. A Futures Commission Merchant ("FCM") is similar to an IB, but an  
22 FCM may accept customer funds. Section 1a(20) of the Act, 7 U.S.C. § 1a(20).  
23 UFHC is an FCM.  
24

25 9. Chase has been a guaranteed IB of UFHC since April 2, 2003. All of  
26 Chase's customers have their accounts with UFHC. Chase does not handle  
27 customer funds.  
28





1 introducing broker entered in or after the effective date of  
2 this agreement.  
3

4 17. On information and belief, Chase and UFHC have continuously  
5 maintained this relationship since at least April 2, 2003.  
6

7 **B. Chase APs Have Violated the Act and Regulations**

8 **1. Background**

9 18. Since at least August 2003, Chase APs have solicited members of the  
10 general public to open commodity trading accounts introduced through Chase to  
11 trade options.  
12

13 19. In telephone sales calls, Chase APs made and continue to make  
14 fraudulent and materially misleading sales solicitations by knowingly  
15 misrepresenting or omitting: (i) the likelihood that a customer would realize large  
16 profits from trading options; (ii) the risk involved in trading options; and (iii)  
17 Chase's poor trading record.  
18  
19

20 **2. Misrepresentations Exaggerating the Likelihood of Profit**

21 20. Chase APs routinely tell customers and prospective customers to  
22 expect to make large returns trading options, usually within a short period of time  
23 (i.e. days or a few weeks), despite the fact that 99% of Chase customers lost money  
24 trading options. For example:  
25

26 (a) Panameno told Larry Sayer that his investment in natural gas would  
27 double within 30 days, or words to that effect;  
28

1 (b) Panameno represented to Rochelle Boland she should buy options on  
2 Euros because this investment would almost surely double within two  
3 weeks, or words to that effect;  
4

5 (c) Kogan said to Brent Hapke that he would make \$50,000 in 3 to 4  
6 days in natural gas put options, or words to that effect;  
7

8 (d) Senger represented to James Fitzgerald that he would make a 30% to  
9 40% return on his investment, or words to that effect;  
10

11 (e) Panameno told Brent Hapke that he knew Hapke had lost \$65,000 in  
12 commodities trading with another IB and that he would get Hapke's money  
13 back and turn it into a \$100,000 profit, or words to that effect;  
14

15 (f) Panameno told Louis Giaconelli that if he invested \$80,000 in options  
16 they would be worth \$163,000 in about three months, or words to that effect;  
17

18 (g) Kogan represented to William Constable that: 1) if he bought just a  
19 few (option) contracts that Constable would "wake up with unbelievable  
20 wealth," or words to that effect; 2) he could turn \$1,500 into \$150,000 in a  
21 very short time, or words to that effect; and 3) if he invested \$5,000 it would  
22 be "a lock" that he (Constable) would make money, or words to that effect;  
23

24 and  
25

26 (h) Panameno represented to James Fitzgerald that he should invest in  
27 crude oil options because it was almost a guarantee that the price of crude oil  
28



1 would drop in the next 7 to 14 days and that Fitzgerald would make a ton of  
2 money in 10 to 14 days, or words to that effect.  
3

4 21. During the course of telephone sales solicitations, Chase APs  
5 systematically tell customers and prospective customers that they will earn a  
6 substantial profit because of well-known public information. For example:  
7

8 (a) Senger represented to David Walton that the capture of Saddam  
9 Hussein by U.S. forces in Iraq would make the price of crude oil drop, and  
10 that Walton should invest everything that he could muster into crude oil put  
11 options, or words to that effect;  
12

13 (b) Kogan conveyed to Jason Bullard that because of the war in Iraq oil  
14 prices were going to rise and Bullard would be able to make money in an  
15 investment in crude oil, or words to that effect;  
16

17 (c) Obando told Joel Perry that he was certain that Perry's investment  
18 would make money because the price of soybeans was going to drop based  
19 on crop reports and the great surplus supply of soybeans, or words to that  
20 effect;  
21

22 (d) Panameno said to Rochelle Boland that she should buy call options  
23 on Euros because Alan Greenspan was talking that interest rates could not  
24 go any lower, or words to that effect;  
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1 (e) Morpew represented to Joel Perry that based on the interest rates,  
2 and comments by Alan Greenspan about the country's financial status, the  
3 Euro would be a good investment, or words to that effect; and  
4

5 (f) Kenney told James Fitzgerald that May was historically a good bullish  
6 month for soybean prices to go up, or words to that effect.  
7

8 22. In their sales solicitations, Chase APs deliberately misrepresent the  
9 urgency of the opportunity and try to convince prospective customers to purchase  
10 options immediately so as not to miss what they indicate is a fleeting opportunity  
11 to make a lot of money. If potential customers hesitate about investing, Chase APs  
12 increase the frequency of their calls, and the urgency of their sales pitches, urging  
13 customers that they must purchase options immediately in order to maximize their  
14 profits. In doing so, Chase APs convey the false impression that profits are  
15 guaranteed and that the only variable is the amount of the profit to be made by the  
16 customer. For example:  
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20

21 (a) Panameno said to Larry Sayer that he should invest "right now" and  
22 that the sooner he invested the more money he would make because the  
23 price would change in a few days, or words to that effect;  
24

25 (b) Morpew and Brancieri separately told Joel Perry that it was urgent  
26 that he invest now so that he did not miss out, or words to that effect;  
27  
28

1 (c) Kogan represented to William Constable that he absolutely had to get  
2 into an open position or he would miss out, or words to that effect; and

3  
4 (d) Panameno told Rochelle Boland to buy more put options in Euros and  
5 she needed to do it "right away." When she asked why so soon, he said he  
6 did not have time to explain, that she just needed to do it, or words to that  
7 effect.  
8

9 **3. Misrepresentations and Omissions Minimizing the Risk of Loss**

10 23. During the course of their telephone sales solicitations, Chase APs  
11 routinely fail to disclose adequately the risk of loss inherent in trading options.  
12 Their occasional references to the Commission's standard risk disclosures are  
13 nullified by Chase's oral misrepresentations to customers and prospective  
14 customers regarding profit. Their misrepresentations and omissions falsely convey  
15 that, while losses in trading options are theoretically possible, trading options with  
16 Chase is highly profitable and virtually risk free. For example:  
17  
18  
19

20 (a) After David Walton had told Panameno that he could not afford to  
21 lose any money because he was 67 years old and it was almost time for him  
22 to retire, Panameno responded, multiple times in solicitation calls that, "You  
23 will make money," with the emphasis placed on the word "will," or words to  
24 that effect;  
25  
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1 (b) Panameno, when told by Rochelle Boland that she did not want to  
2 invest in anything risky because she was a widow with three children and  
3 living on only a part-time salary, responded that trading options would be a  
4 low risk and secure investment, or words to that effect;  
5

6  
7 (c) When John Sheard questioned Brancieri about the numbers on his  
8 account statement, Brancieri told John Sheard to “trust him” and that Sheard  
9 did not need to worry about the statements. Brancieri continued that Sheard  
10 was making a lot of money, or words to that effect; and  
11

#### 12 **4. Chase’s Losing Performance Record**

13 24. Despite their grandiose profit claims and minimization of risk, Chase  
14 APs never disclose the actual overall losing trading record sustained by their  
15 customers. In fact, the overwhelming majority of Chase’s customers lose money  
16 trading options.  
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19 25. From about August 1, 2003, through March 31, 2004, (“relevant time  
20 period”) Chase introduced a total of 201 new options trading accounts at UFHC.  
21 Moreover, an additional 243 customer accounts were transferred to Chase from  
22 another IB firm during the relevant time period.  
23

24 26. Of the 201 new accounts introduced by Chase, 101 of these accounts  
25 were closed as of March 31, 2004. All 101 closed accounts (100%) lost money  
26 trading options during the relevant time period. Collective losses totaled  
27  
28

1 \$914,408.33. As of March 31, 2004, 100 of the new accounts remained open. Of  
2 these 100 open accounts, 5 did not trade while with Chase. 94 of the remaining 95  
3 accounts (99%) lost money trading options during the relevant time period and  
4 sustained realized losses totaling \$1,713,398.38.  
5

6  
7 27. Of the 243 accounts transferred to Chase, 197 accounts were closed as  
8 of March 31, 2004. Of these 197 accounts, 74 did not trade while with Chase. 119  
9 of the remaining 123 accounts (97%) lost money trading options during the  
10 relevant time period. Collective losses in these accounts totaled \$793,686.59. As  
11 of March 31, 2004, 46 of the transferred accounts remained open. Of these  
12 accounts, 6 did not trade while with Chase. All of the other 40 accounts (100%)  
13 lost money trading options during the relevant time period and sustained realized  
14 losses totaling \$831,152.35. Of the 243 total transferred accounts, only four  
15 customers recorded net gains earning a collective profit of \$2,269.47 after paying  
16 commissions and fees.  
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21 28. In sum, during the relevant time period, Chase had a total of 444  
22 customer accounts, of which 85 did not trade. Of the remaining 359 accounts that  
23 actively traded, 99% of them (354 accounts) lost money. Collectively these  
24 accounts lost a total of \$4,252,645.65. Chase only had five customers who had net  
25 gains in their accounts at the end of the relevant time period, earning a collective  
26 profit of \$2,884.81 after paying commissions and fees.  
27  
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1           29. Between August 1, 2003 and March 31, 2004, Chase charged their  
2 customers at least \$2,273,925.00 in commissions and fees, more than 50% of the  
3 \$4,252,645.65 total loss incurred by the customers. Of that, \$1,692,344.25 was  
4 paid directly to Chase in commissions during those eight months.  
5

6  
7 **C. Lagorio is Liable under the Act as a Controlling Person**

8           30. Lagorio directly or indirectly controlled Chase and did not act in good  
9 faith, or knowingly induced, directly or indirectly, the violations of the Act. He  
10 therefore is liable as a controlling person pursuant to Section 13(b) of the Act, 7  
11 U.S.C. § 13c(b).  
12

13  
14           31. Lagorio is listed with the Commission as a principal of Chase. As  
15 Chase's president and treasurer, Lagorio has control over all of the firm's  
16 management decisions. For example, he hires and fires the firm's employees, and  
17 signs the firm's employment agreements and paychecks. Moreover, Lagorio,  
18 signed the guarantee agreement with UFHC. Lagorio has the ability and the  
19 control to prevent fraudulent sales solicitations from occurring at Chase, but fails  
20 to do so. Lagorio also handles customer complaints and signs the firm's settlement  
21 agreements with disgruntled customers. Indeed, Lagorio has settled numerous  
22 complaints from customers alleging sales solicitation fraud against Chase. As  
23 such, he has actual knowledge of the fraudulent solicitations conducted by Chase  
24  
25  
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1 APs. Despite this knowledge, Lagorio allowed and continues to allow the  
2 fraudulent conduct to continue.  
3

4 32. Because Lagorio had knowledge of the fraud and allowed it to  
5 continue, he is liable as a controlling person.  
6

7 **D. Obando is Liable under the Act as a Controlling Person**

8 33. Obando directly or indirectly controlled Chase and did not act in good  
9 faith, or knowingly induced, directly or indirectly, the violations of the Act. He  
10 therefore is liable as a controlling person pursuant to Section 13(b) of the Act, 7  
11 U.S.C. § 13c(b).  
12

13 34. Obando is listed with the Commission as a principal of Chase and is  
14 its compliance officer. As such, he plays a central role in the operation of this  
15 corporation, has many supervisory duties and is included in all company decisions.  
16 Specifically, he handles customer complaints and is listed as the “IB supervisor”  
17 on the firm’s complaint resolution forms with disgruntled customers who have  
18 alleged sales solicitation fraud against Chase. He supervises all sales solicitations  
19 and sits in the same room as the Chase APs during their sales solicitations.  
20 Additionally, Obando signs the firm’s “AP monitoring” forms evaluating the  
21 individual AP’s performance in sales solicitations. He has actual knowledge of the  
22 fraudulent solicitations and has the ability and control to prevent fraudulent sales  
23 solicitations from occurring, but fails to do so.  
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1 or in connection with an offer to enter into, the entry into, the confirmation of the  
2 execution of, or the maintenance of, any commodity option transaction.  
3

4 39. As described above, Chase APs in or in connection with an offer to  
5 enter into, the entry into, the confirmation of, the execution of, or the maintenance  
6 of commodity options transactions with Chase cheated, defrauded, or deceived or  
7 attempted to cheat, defraud, or deceive, other persons by making false, deceptive,  
8 or misleading representations of material facts and by failing to disclose material  
9 facts necessary to make other facts they disclosed not misleading, including but not  
10 limited to those statements and omissions identified in paragraphs 18 through 29,  
11 all in violation of Section 4c(b) of the Act, 7 U.S.C. § 6c(b), and Regulation 33.10,  
12 17 C.F.R. § 33.10.  
13  
14  
15

16 40. The foregoing fraudulent acts, misrepresentations, and omissions of  
17 Chase's APs occurred within the scope of their employment with Chase. Chase is  
18 therefore liable for these acts pursuant to Section 2(a)(1)(B) of the Act, 7 U.S.C. §  
19 2(a)(1)(B).  
20  
21

22 41. Lagorio directly or indirectly controlled Chase's APs, and did not act  
23 in good faith or knowingly induced, directly or indirectly, the act or acts  
24 constituting the violations alleged as to Chase. Lagorio therefore is a controlling  
25 person and is liable for these acts pursuant to Section 13(b) of the Act, 7 U.S.C. §  
26 13c(b).  
27  
28



- 1 a) an order finding that defendants Chase, Lagorio and Obando violated  
2 Section 4c(b) of the Act, 7 U.S.C. § 6c(b), and Section 33.10 of the  
3 Regulations, 17 C.F.R. § 33.10;  
4  
5 b) a permanent injunction prohibiting defendants Chase, Lagorio and  
6 Obando from engaging in conduct in violation of Section 4c(b) of the  
7 Act, 7 U.S.C. § 6c(b), and Section 33.10 of the Regulations, 17 C.F.R.  
8 § 33.10 and from engaging in any commodity-related activity,  
9 including soliciting new customers;  
10  
11 c) an order directing defendants Chase, Lagorio and Obando to disgorge,  
12 pursuant to such procedure as the Court may order, all benefits  
13 received from the acts or practices which constitute violations of the  
14 Act or Regulations, as described herein, and interest thereon from the  
15 date of such violations;  
16  
17 d) an order directing defendants Chase, Lagorio and Obando to make full  
18 restitution, pursuant to such procedure as the Court may order, to  
19 every customer whose funds were received by them as a result of acts  
20 and practices which constituted violations of the Act and Regulations,  
21 as described herein, and interest thereon from the date of such  
22 violations;  
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- 1 e) an order directing defendants Chase, Lagorio and Obando to pay a  
2 civil monetary penalty in the amount of not more than the higher of  
3 \$120,000 or triple the monetary gain to each defendant for each  
4 violation of the Act or Regulations;  
5  
6 f) an order directing that UFHC is jointly and severally liable under its  
7 Guarantee Agreement with Chase for any amount that Chase is unable  
8 to pay pursuant to Section VI c-e, above; and  
9  
10 g) such other and further remedial ancillary relief as the Court may deem  
11 appropriate.  
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15 Respectfully submitted by,

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18 Kenneth W. McCracken, Esq. (Pro Hac Vice)  
19 4900 Main, Suite 721  
20 Kansas City, Missouri 64112  
21 816-308-3313  
22 202-418-5531 (fax)

23 Richard Glaser, Esq. (Pro Hac Vice)  
24 1155 21st Street, N.W.  
25 Washington, D.C. 20581  
26 202-418-5383  
27 202-418-5519 (fax)

28 Kent Kawakami (Calif. Bar No. 149803)  
United States Attorney's Office  
Central District of California - Civil Division  
300 North Los Angeles Street

1 Los Angeles, CA 90012  
2 213-894-4858  
3 213-894-2380 (fax)

4 Attorneys for Plaintiff  
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6 Date: August 4, 2004  
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