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United States District Court  
Southern District of Texas  
FILED

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF TEXAS  
HOUSTON DIVISION**

**AUG 14 1996**

**Michael N. Milby, Clerk**

**UNITED STATES OF AMERICA**

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v.

**CRIMINAL No. H - 9 6 - 1 5 7**

**KARL L. DAHLSTROM  
KARLA D. DAHLSTROM  
HUBERT LEON LEOPARD  
RICHARD E. LOPEZ**

**INDICTMENT**

**THE GRAND JURY CHARGES THAT:**

COUNT ONE

CONSPIRACY

Violations of Title 18 U.S.C. § 371

I.

INTRODUCTION

At all times material to this Indictment:

Companies

1. Inferno Snuffers, Inc. ("ISI/TX"), was formed on April 10, 1991, as a Texas corporation with its principal place of business in College Station and Navasota, Texas. In the latter part of 1991, ISI was merged into Cardinal Funding, Inc., a Delaware "shell" corporation purchased by ISI/TX with investors' funds, and the survivor changed its name to Inferno Snuffers, Inc. ("ISI"). The company was created by defendant **Karl L. Dahlstrom** to develop and market a firefighting compound called "Uni-Snuff," which was designed to put out oil well waste pit and other types of fires.
2. Inferno Engineering and Consulting, Inc. ("IEC") was formed on July 10, 1991, as a Texas corporation with its principal place of business located in Navasota, Texas. IEC was formed by defendant **Karl L. Dahlstrom** purportedly to develop firefighting equipment.

#

Defendants

3. **Karl L. Dahlstrom** ("**Dahlstrom**") was a resident of College Station, Texas in the Southern District of Texas, and was the incorporator of ISI/TX, ISI and IEC. **Dahlstrom** was a corporate officer and director of ISI/TX, ISI and IEC, and owned, through various trusts he controlled, over 50% of all the companies' shares. Through these positions and his stock ownership, **Dahlstrom** controlled ISI/TX, ISI and IEC. **Dahlstrom** offered and sold securities issued by ISI/TX or IEC by use of the means and instrumentalities of interstate commerce and the mails, and in violation of provisions of the federal securities laws.

4. **Karla D. Dahlstrom** ("**K. Dahlstrom**"), defendant herein, was a resident of College Station, Texas in the Southern District of Texas. **K. Dahlstrom** was a corporate officer and director of ISI/TX, ISI and IEC, and served as the companies' office manager. **K. Dahlstrom** is **Dahlstrom's** daughter. **K. Dahlstrom** offered and sold securities issued by ISI/TX or IEC by use of the means and instrumentalities of interstate commerce and the mails, and in violation of provisions of the federal securities laws.

5. **Hubert Leon Leopard**, defendant herein, was a resident of Wellborn, Texas in the Southern District of Texas. **Leopard** was a corporate officer and director of ISI/TX, ISI and IEC. **Leopard** offered and sold securities issued by ISI/TX or IEC by use of the means and instrumentalities of interstate commerce and the mails, and in violation of provisions of the federal securities laws.

6. **Richard E. Lopez**, defendant herein, was a resident of College Station, Texas in the Southern District of Texas. **Lopez** offered and sold securities issued by ISI/TX or IEC by use of the means and instrumentalities of interstate commerce and the mails, and in violation of provisions of the federal securities laws.

Definitions

7. The following terms used in this Indictment are defined below to clarify the nature of the schemes and artifices designed by the defendants, as detailed in the Manner and Means section of the indictment:

a. The "Securities and Exchange Commission" ("**SEC**") is an agency of the United States government authorized and empowered to enforce the federal securities laws, including the Securities Act of 1933, and the Securities and Exchange Act of 1934.

b. A "Security" includes, among other things, shares of stock issued by a corporation.

c. An "Offering" of securities, consists of any attempt or

offer to dispose of, or solicitation of an offer to buy, a security or interest in a security for value.

d. A "registered security" is a security that is the subject of an effective registration statement filed with the SEC, that includes a prospectus and other comprehensive disclosure-related offering materials detailing, among other things, an issuer's or offeror's financial condition, the risks in the issuer's business, and the issuer's intended uses of investor's funds.

e. A "broker" or "dealer" in securities ("broker/dealer") is any person who engages in the business of effecting transactions in securities for the accounts of others or buying and selling securities for his own accounts.

## II. The Conspiracy

8. From in or about April 1991 and continuing to in or about April 1992, in the Houston Division of the Southern District of Texas, and elsewhere, the defendants,

**Karl L. Dahlstrom,  
Karla D. Dahlstrom,  
Hubert Leon Leopard, and  
Richard E. Lopez**

did knowingly and willfully combine, conspire, confederate, and agree together and with each other and with others known and unknown to the Grand Jury, each aiding and abetting the other and aided and abetted by others, to commit the following offenses against the United States:

a. To knowingly and willfully, by use of the means or instrumentalities of interstate commerce, and the mails: (i) employ a device, scheme, or artifice to defraud; (ii) make untrue statements of a material fact and to omit to state a material fact necessary to make the statements made, or in the light of the circumstances under which they were made, not misleading; and (iii) engage in an act, practice, or course of business which operates or would operate as a fraud or deceit upon another person, in connection with the purchase or sale of any security, in violation of 15 U.S.C § 78j(b) and 17 C.F.R. § 240.10b-5;

b. To knowingly and willfully, in the offer and sale of securities by the use of means and instruments of transportation and communication in interstate commerce, and by use of the mails, directly or indirectly: (i) employ a device, scheme, and artifice to defraud; (ii) obtain money and property by means of untrue statements of a material fact and

omitting to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made not misleading; and (iii) engage in any transaction, practice, or course of business which operates and would operate as a fraud and deceit upon the purchaser, in violation of 15 U.S.C. §§ 77q (a)(1),(2) and (3).

c. To knowingly and willfully make use of the mails and the means and instrumentalities of interstate commerce to effect transactions in, and to induce and attempt to induce the purchase and sale of, securities (other than exempted securities) without being registered as a broker or dealer in accordance with 15 U.S.C. § 78o(b), in violation of 15 U.S.C. § 78o (a) (1);

d. To knowingly and willfully, directly or indirectly, (i) make use of the means and instruments of transportation or communication in interstate commerce and the mails to sell securities as to which no registration statement has been filed with the SEC, through the use or medium of any prospectus or otherwise; (ii) carry or cause to be carried through the mails or in interstate commerce, by the means or instruments of transportation, securities as to which no registration statement has been filed with the SEC, for the purpose of sale or for delivery after sale; and (iii) make use of the means and instruments of transportation and communication in interstate commerce and of the mails to offer to sell or offer to buy, through the use or medium of any prospectus or otherwise, securities as to which no registration statement has been filed with the SEC, in violation of 15 U.S.C. §§ 77e(a)(1) and (2) and 77e(c).

e. To use the United States Mails in the execution and attempted execution of a scheme to defraud, in violation of 18 U.S.C. § 1341.

A. The Manner and Means of the Conspiracy

9. As part of and in furtherance of the conspiracy, **Dahlstrom** would and did form ISI/TX in April 1991, to conduct a public offering, and engage in a fraudulent scheme to sell the company's securities.

10. As part of and in furtherance of the conspiracy, **Dahlstrom** would and did devise and implement the "slotholders"/"piggybackers" system, in order to disguise and conceal the actual number and location of ISI/TX's shareholders and conceal the defendants' knowing and wilful violations of the securities registration requirements of the Securities Act of 1933.

11. As part of and in furtherance of the conspiracy, **Dahlstrom** would and did form IEC in July 1991, purportedly to develop

specialized equipment to dispense the "Uni-snuff" product, when in truth and in fact, IEC was formed to permit a greater number of "slotholders," and, thus, "piggy-backers," to continue purchasing stock in the companies' public offering of securities.

12. As part of and in furtherance of the conspiracy, **Dahlstrom** recruited defendants **K. Dahlstrom, Leopard, Lopez** and others, during the period from April 1991 to and including December 1991, to conduct a public offering and engage in a fraudulent scheme to sell securities issued by ISI/TX and IEC.

13. As part of and in furtherance of the conspiracy to induce persons to invest in ISI/TX and IEC's securities, at various times during the period from April 1991 to and including December 1991, the defendants knowingly and willfully made false and misleading representations of material fact in oral solicitations and written communications (including video tape recordings, brochures, pamphlets, an Executive Summary, Business Plan, a Confidential Private Offering Memorandum, and numerous one-page information leaflets) with purchasers and prospective purchasers of the companies' securities, including, but not limited to the following:

a. That the "Uni-snuff" product was a "New Revolutionary Chemical Gel" that possessed unique fire fighting properties, when in truth and in fact, the product consisted of detergent, water, and a commercially available polymer, and, thus, did not absorb or reflect heat without dissipating;

b. that the "Uni-snuff" product could be applied with any fire fighting apparatus, when in truth and in fact, the product required specialized application techniques and equipment;

c. that the shelf-life of "Uni-snuff" was in excess of several months or that particular samples of "Uni-snuff" had been stored for several years, when in truth and in fact, the shelf-life of the product was limited, which severely restricted marketability of the product;

d. that "Uni-snuff" was the only firefighting chemical approved by the Kuwait National Oil Company;

e. that ISI/TX had entered into contracts with two firefighting companies with contracts to fight fires in Kuwait;

f. that the "Snuffer System" (fire suppression equipment manufactured by IEC) complied with the Texas Railroad Commission safety regulations;

g. that financial experts had valued the companies in excess

of \$500 million;

h. that there was a "patent pending" on the Uni-snuff product in the United States Patent Office;

i. that all investors were certain to receive "large" returns on their investment with the companies;

j. that investors' funds would be used to develop and market the "Uni-snuff" product;

k. that ISI/TX had contracted to sell the "Uni-snuff" product to the United States Navy for employment in firefighting and suppression activities on naval vessels.

14. As part of and in furtherance of the conspiracy to induce persons to invest in ISI/TX and IEC's securities, at various times during the period from April 1991 to and including December 1991, the defendants knowingly and willfully omitted to disclose material facts in oral solicitations and written communications (including videotape recordings, brochures, pamphlets, an Executive Summary, Business Plan, a Confidential Private Offering Memorandum, and numerous one-page information leaflets) with purchasers and prospective purchasers of the companies' securities, including, but not limited to the following:

a. That **Dahlstrom** owned a majority of ISI/TX and IEC shares through business trusts that he controlled, so that the defendants would assure their continued ability to appoint a board of directors and manage the companies;

b. that investors' funds were not employed in the development or manufacture of "Uni-snuff," but were commingled for use by ISI/TX, IEC, ISI and other entities formed or operated by the defendants, and were, instead, utilized by the defendants to: pay commissions to "slotholders," including themselves in cash directly from investors' funds -- and ISI/TX or IEC stock for sales of the companies' shares to "piggy-backer" investors; purchase vehicles for use by the individual defendants; and additionally remunerate defendants in related party transactions for lease payments, equipment, or other goods, and with salaries;

c. that ISI/TX, during the period from April 1991 to and including December 1991, had sold only approximately \$15,000 worth of "Uni-Snuff"; that the company had not developed sufficient manufacturing capacity to build the product in commercial quantities; and that the company was wholly reliant on funds derived from investors' purchases of ISI/TX or IEC shares to continue business operations;

d. that the "Uni-snuff" product, during the period from April



1991 to and including December 1991, was not marketable in its then-current formulation, due to mixing requirements, product separation, and biodegradation (rotting); that ISI/TX did not begin development of a potentially marketable concentrate form of "Uni-snuff" until September or October 1991; that the "Uni-snuff" product was never tested for use in applications other than for oil well blowout or waste pit, or mobile home fires; and

e. that **Dahlstrom** arbitrarily set the price of ISI/TX or IEC stock for sale by the defendants, raising the price of the shares from \$.01 to .25 during the period from April 1991 to and including December 1991; and that shares of the company were not liquid investments, because they could not be re-sold by investors for a period of at least two years, in accordance with the Securities Act of 1933.

15. As part of and in furtherance of the conspiracy, at various times during the period from April 1991 to and including December 1991, the defendants would and did conduct demonstrations utilizing the "Uni-snuff" product at locations in College Station, Texas; Angleton, Texas; Navasota, Texas; Ocala, Florida; and Norfolk, Virginia. These demonstrations were conducted in order to, among other things, solicit potential investors "invited" to the demonstrations; and to publicize the business of ISI/TX and IEC through the news and print media and thereby obtain additional investors.

16. As part of and in furtherance of the conspiracy, commencing in April 1991 and continuing until December 1991, the defendants devised and implemented the "slotholder"/"piggy-backer" system. This system was devised and implemented to disguise and conceal the number and location of the companies' investors.

17. As part of and in furtherance of the conspiracy, commencing in April 1991 and continuing until December 1991, **Dahlstrom** devised and, with the aid of other defendants, implemented the usage of "Texas Trusts." The defendants employed "Texas Trusts" to disguise and conceal the number and location of the companies' investors.

18. As part of and in furtherance of the conspiracy, commencing in April 1991 and continuing until December 1991, the defendants would and did use the United States mails to disseminate offering documents to potential investors, and to receive funds from individual investors.

19. As part of and in furtherance of the conspiracy, the defendants would and did sell approximately 56 million shares of stock in ISI/TX and approximately 10 million shares of stock in IEC to in excess of 500 investors, most of whom were located in the State of Texas, as well as, approximately ninety (90) investors located in twenty eight (28) different states across the United

States. None of the defendants registered with the SEC as a "broker/dealer" in securities, and none of the securities was registered with the SEC.

B. Overt Acts

20. In furtherance of the conspiracy, and to effect the objects thereof, the defendants committed the following overt acts, among others, in the Southern District of Texas and elsewhere, on or about the following dates:

(1) In or about April 10, 1991, **Dahlstrom** caused ISI/TX to be incorporated with the Texas Secretary of State.

(2) In early April 1991, **Dahlstrom** travelled to Boise, Idaho from College Station, Texas, and met with a group of individuals to solicit investors in ISI/TX. **Dahlstrom** obtained approximately \$110,000 from the Idaho investors and issued 10 million shares "ISI/TX" stock to one or more "Texas Trusts" he formed for them.

(3) On or about April 9, 1991, immediately upon his return from Boise, Idaho, **Dahlstrom** purchased a 1991 Toyota Camry vehicle for \$13,109, using money from the Idaho investors.

(4) On or about April 10, 1991, **Dahlstrom** purchased a 1991 Toyota pick-up truck for \$9,222, using money from the Idaho investors.

(5) On or about May 2, 1991, **Dahlstrom** received \$11,400 from the sale of laboratory equipment to ISI/TX from Improved Products, a trust **Dahlstrom** controlled, using money from the Idaho investors.

(6) In the latter part of April 1991 and in May 1991, **Dahlstrom** offered and sold stock in "ISI/TX" to individuals at churches, businesses and other organizations all unrelated to ISI/TX in the Bryan/College Station, Texas area.

(7) Commencing in late April or early May 1991, and continuing thereafter, **K. Dahlstrom** received money from investors through the U.S. Mail, or in person, for purchases of ISI/TX and, after July 1991, IEC stock, deposited the money in various bank accounts, mailed ISI/TX and IEC promotional materials, and signed checks drawn on accounts held in the name of ISI/TX, IEC and other entities.

(8) Commencing in May 1991, and continuing thereafter, **Dahlstrom** authorized use of the "slotholder"/"piggy-backer" system, by **Leopard, K. Dahlstrom, Lopez** and others, to offer and sell stock in ISI/TX to investors.



(9) Late May, early June 1991, **Dahlstrom, Leopard, Lopez** and others distributed written materials to potential investors that falsely represented the "Uni-Snuff System", fire fighting equipment, complied with the Texas Railroad Commission's Safety Regulations.

(10) In May, June and July 1991, and continuing thereafter, **Dahlstrom** recruited others, including **K. Dahlstrom, Leopard, Lopez** and others, to offer and sell stock in ISI/TX to investors unrelated to the company, in exchange for commission payments.

(11) In July, 1991, Karl **Dahlstrom** caused IEC to be incorporated with the Texas Secretary of State.

(12) Commencing in July 1991, and continuing to December 1991, **Dahlstrom** authorized use of the "slotholder"/"piggy-backer" system, by **Leopard, K. Dahlstrom, Lopez** and others, to offer and sell stock in IEC to investors.

(13) Commencing in July 1991, and continuing to December 1991, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others offered and sold stock in IEC to investors in exchange for commission payments.

(14) From April 1991 to, but not including, August 1991, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others sold approximately \$680,000 worth of ISI/TX and IEC stock.

(15) From August 1991 and continuing thereafter to December 1991 **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others developed and distributed promotional materials to potential investors, including: a pamphlet entitled "New Revolutionary Petro-Chemical Gel Fire Extinguisher!!!"; an Executive Summary; a Business Plan Synopsis; a Confidential Private Offering Memorandum; bulletin sheets entitled "Inferno Snuffers, Inc. 'Uni-Snuff'-New Revolutionary Chemical Gel For Extinguishing Fires", "Have You Ever Heard Of Uni-Snuff", "Before You Slay the Dragon-'Uni-Snuff'", "Introducing 'Uni-Snuff'"; and several video tape recordings.

(16) From August 1991 and continuing through October 1991, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others distributed a video tape recording to potential investors that falsely represented "Uni-snuff" was the only firefighting chemical approved by the Kuwait National Oil Company.

(17) From August 1991 and continuing through December 1991, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others distributed written materials to potential investors that falsely represented ISI/TX or IEC had entered into contracts with two firefighting companies engaged in fighting fires in Kuwait.

(18) From August 1991 and continuing through December 1991, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others distributed written materials to potential investors that falsely represented financial experts had valued ISI/TX and IEC in excess of \$500 million.

(19) From August 1991 and continuing through December 1991, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others told potential investors that a patent was "pending" with, or, in certain instances, that a patent had been awarded by, the United States Patent Office for the "Uni-snuff" product.

(20) From August 1991 and continuing through December 1991, **Dahlstrom, Leopard, K. Dahlstrom, Lopez** and others told potential investors that they were certain to receive "large" returns on their investment in ISI/TX or IEC.

(21) From August 1991 and continuing through December 1991, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others told potential investors that their money would be used to develop and market the "Uni-snuff" product.

(22) From August 1991 and continuing through December 1991, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others told potential investors that ISI/TX or IEC would enter into, or in certain instances, had entered into, contracts with the U.S. Navy to employ "Uni-snuff" for firefighting and fire suppression activities on naval vessels.

(23) During the period August 1991 to December 1991, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others sold approximately \$1,248,342 worth of ISI/TX or IEC stock.

(24) During the period from April 1991 to and including December 1991, **Dahlstrom, K. Dahlstrom, Leopard, Lopez**, did not register with the Commission the ISI/TX or IEC shares they, and others acting with or for them, offered and sold.

(25) During the period from April 1991 to and including December 1991, **Dahlstrom, K. Dahlstrom, Leopard, Lopez**, did not register with the Commission as brokers or dealers in securities.

(26) From August 1991 and continuing thereafter to December 1991, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others used the U.S. Mail to send promotional materials concerning and relating to ISI/TX or IEC, including, specifically, the promotional materials identified and described in this Indictment, to potential investors.

(All in violation of Title 18 United States Code Sections 371 and 2)

COUNT TWO

FRAUD IN CONNECTION WITH THE PURCHASE AND SALE OF SECURITIES

Violations of Section 10(b) of the Securities and Exchange Act of 1934 [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]

21. The allegations set forth in the sections above entitled Introduction (paragraphs 1 through 7) and Manner and Means of The Conspiracy (paragraphs 9 through 19), and Overt Acts (paragraph 20) are repeated and realleged as if fully set forth herein.

22. From April 10, 1991 to December 5, 1991, in the Houston Division of the Southern District of Texas and elsewhere, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others, directly and indirectly, knowingly and willfully, each aiding and abetting the others and aided and abetted by others, in connection with the sale of securities issued by ISI and IEC to purchasers being too numerous to name herein, but being generally all persons referred to herein as "investors" or "shareholders," did by use of the means and instrumentalities of interstate commerce and the mails:

- a. employ a device, scheme or artifice to defraud;
- b. make untrue statements of a material fact, or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or
- c. engage in acts practices, or courses of business which operated as a fraud or deceit on such purchasers.

23. As part of and in furtherance of this conduct, these defendants, knowingly and willfully, distributed written offering materials, video tape recordings, and made oral presentations, all by use of the means and instruments of interstate commerce and transportation and the mails, which contained false, misleading or incomplete statements of material facts. The defendants made untrue statements or omitted to make statements regarding the companies' products and potential markets for those products including those false, misleading or incomplete statements of material fact set out in paragraphs 13, 14 and 20.

(In violation of Title 15 United States Code Sections 78j(b); Title 17 Code of Federal Regulations Section 240.10b-5; and Title 18 United States Code Section 2.)

COUNT THREE  
FRAUD IN THE OFFER AND SALE OF SECURITIES

Violations of Section 17(a) of the  
Securities Act of 1933 [15 U.S.C. § 77o(a)1

24. The allegations set forth in the sections above entitled Introduction (paragraphs 1 through 7) and Manner and Means of The Conspiracy (paragraphs 9 through 19), and Overt Acts (paragraph 20) are repeated and realleged as if fully set forth herein.

25. From April 10, 1991 to December 5, 1991, in the Houston Division of the Southern District of Texas and elsewhere, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others, directly and indirectly, knowingly and willfully, aiding and abetting the others and aided and abetted by others, in the offer and sale of securities issued by ISI/TX and IEC to purchasers being too numerous to name herein, but being generally all persons referred to herein as "investors" or "shareholders," did use the means and instruments of transportation and communication in interstate commerce and by use of the mails:

- a. To employ a device, scheme or artifice to defraud;
- b. to obtain money or property by means of untrue statements of material facts and omissions to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; and
- c. to engage in transactions, practices, and courses of business which operated as a fraud and deceit upon purchasers of ISI/TX and IEC securities.

26. As part of and in furtherance of this conduct, these defendants, knowingly and willfully, distributed written offering materials, video tape recordings, and made oral presentations, all by use of the means and instruments of interstate commerce and transportation and the mails, which contained false, misleading or incomplete statements of material facts. The defendants made untrue statements or omitted to make statements regarding the companies' products and potential markets for those products including those false, misleading or incomplete statements of material fact set out in paragraphs 13, 14 and 20.

(In violation of Title 15 United States Code Section 77q(a); and Title 18 United States Code Section 2).

COUNT FOUR

SALE OF UNREGISTERED SECURITIES

Violations of Sections 5(a) and (c) of  
the Securities Act of 1933 [15 U.S.C. §77e(a) and 77e(c)]

27. The allegations set forth in the sections above entitled Introduction (paragraphs 1 through 7) and Manner and Means of The Conspiracy (paragraphs 9 through 19), and Overt Acts (paragraph 20) are repeated and realleged as if fully set forth herein.

28. From August 10, 1991 and continuing through December 5, 1991, in the Houston Division of the Southern District of Texas, and elsewhere, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others, directly and indirectly, knowingly and willfully, aiding and abetting the others and aided and abetted by others, did, directly or indirectly:

a. make use of the means and instruments of transportation or communication in interstate commerce and the mails to sell securities of ISI/TX and IEC that were not subject of an effective registration statement filed with the SEC, through the use or medium of any prospectus or otherwise;

b. carry or cause to be carried through the mails or in interstate commerce, by the means or instruments of transportation, securities of ISI/TX and IEC that were not subject of an effective registration statement filed with the SEC, for the purpose of sale or for delivery after sale; and

c. make use of the means and instruments of transportation and communication in interstate commerce and of the mails to offer to sell or offer to buy, through the use or medium of any prospectus or otherwise, securities of ISI/TX and IEC that were not subject of an effective registration statement filed with the SEC.

(In violation of Title 15 United States Code Sections 77e(a) and 77e(c); and Title 18 United States Code Section 2).

COUNT FIVE

ACTING AS AN UNREGISTERED BROKER-DEALER

Violations of Section 15(a) of the Securities  
and Exchange Act of 1934 (15 U.S.C. § 78o(a)(1))

29. The allegations set forth in the sections above entitled Introduction (paragraphs 1 through 7) and Manner and Means of The Conspiracy (paragraphs 9 through 19), and Overt Acts (paragraph 20) are repeated and realleged as if fully set forth herein.

30. From August 1991 and continuing through December 10, 1991, in the Houston Division of the Southern District of Texas, and elsewhere, **Dahlstrom, K. Dahlstrom, Leopard, Lopez** and others, directly and indirectly, knowingly and willfully, aiding and abetting the others and aided and abetted by others, while engaged in the business of effecting transactions in, and offering and selling, securities of ISI/TX and IEC for their own accounts and the accounts of others, used the mails and the means or instrumentalities of interstate commerce effect transactions in, and induce or attempt to induce the purchase or sale of, securities of ISI/TX and IEC, without being registered as a broker or dealer in accordance with 15 U.S.C. § 78o(b).

(In violation of Title 15 United States Code Section 78o(a)(1) and Title 18 United States Code Section 2).



COUNTS SIX THROUGH SIXTEEN

MAIL FRAUD

VIOLATIONS OF TITLE 18 U.S.C. §1341

The Scheme

31. The allegations set forth in the sections above entitled Introduction (paragraphs 1 through 7) and Manner and Means of The Conspiracy (paragraphs 9 through 19) and Overt Acts (paragraph 20) are repeated and realleged as if fully set forth herein.

32. In April, 1991, **Dahlstrom** formed ISI/TX purportedly to develop and market a product called "Uni-snuff", which was designed to put out oil well (waste pit) fires and other types of fires. The "Uni-snuff" product was a gel-like compound that **Dahlstrom** asserted would "revolutionize" the business of extinguishing and suppressing fires. During the course of the Persian Gulf War, Iraqi soldiers set in excess of 750 oil wells on fire in Kuwait; **Dahlstrom** represented that the "Uni-snuff" product would be employed to extinguish those fires. **Dahlstrom** also represented that the "Uni-snuff" product would be employed in numerous other applications, including in the domestic oil and gas industry, and in industrial, residential, forest and coal mine fires.

33. At the time he formed the company, **Dahlstrom** began offering ISI/TX stock to investors in several states, by use of the means and instrumentalities of interstate commerce and the mails, through a public solicitation utilizing, among other means, media advertising, public displays and demonstrations, mass marketing, and solicitations of persons without any prior business relationship to ISI/TX.

34. In or about July, 1991, Defendant **Karl L. Dahlstrom** formed "IEC" purportedly to develop and manufacture specialized equipment to dispense the "Uni-snuff" product in fighting fires. In truth and in fact, IEC did not develop or manufacture such specialized equipment as **Dahlstrom** claimed; rather, IEC was formed to permit a continuation of ISI/TX's public offering of securities by the same means and instrumentalities used in the public offering of ISI/TX stock.

35. **Dahlstrom** recruited co-defendants **K. Dahlstrom, Leopard, Lopez** and others to assist in managing the business of ISI/TX and IEC, and to offer and sell, and aid and abet others in the offer and sale of, securities issued by ISI/TX and IEC. **Dahlstrom** and each of these co-defendants were compensated with cash commissions, paid from investors' contributions, or stock in ISI/TX or IEC, for their successful efforts in selling the companies' securities.

36. The defendants' public offering of ISI/TX and IEC's securities

was reliant on false, misleading or incomplete statements of material facts regarding the capabilities of "Uni-snuff" and the product's usefulness to put out the oil well fires in Kuwait, the financial condition of ISI/TX and IEC and the defendants' intended uses of investors' funds, and the background and qualifications of the companies' management, as set out in the Manner and Means section of this Indictment. For example, the defendants falsely represented that sales of "Uni-snuff" for the applications described above would provide immense profits to ISI/TX and IEC, and assure substantial returns to investors. In truth and fact, as was known to each of them, during the period in which the defendants offered and sold ISI/TX and IEC securities, the companies sold only minimal amounts of "Uni-snuff" and did not have sufficient manufacturing capability to produce the product in the quantities required to provide the promised profits.

37. None of the defendants was registered with the SEC as broker/dealer; none of ISI/TX's or IEC's securities was registered with the SEC.

#### Offers and Sales of Securities

38. From April 1991 to December 1991, defendants distributed and disseminated oral and written solicitations to investors (including video tape recordings), and received stock subscriptions and payments for securities from investors, by utilizing various means of interstate commerce, including interstate telephone and facsimile transmissions, and the U.S. Mail, all in furtherance of their public offering of ISI/TX and IEC securities.

39. As part of their offering of ISI/TX and IEC securities, defendants conducted demonstrations utilizing the "Uni-snuff" product at locations in College Station, Texas; Angleton, Texas; Navasota, Texas; Ocala, Florida; and Norfolk, Virginia. Investors, firefighting professionals, and the television and print news media were "invited" to these demonstrations by use of the mails and the means and instruments of interstate communication. Among other things, the purpose of these demonstrations was to solicit individuals attending the demonstrations to purchase ISI/TX and IEC securities, and to publicize the existence and business of ISI/TX or IEC (through the media) in order to obtain additional investors.

40. **Dahlstrom** and the other defendants devised and employed a system of "slotholders" and "piggy-backers" to conceal, and attempt to conceal their public solicitation of ISI/TX and IEC securities. "Slotholders" were shareholders-of-record in ISI/TX or IEC, and were investors in the companies; "piggy-backers" were investors whose actual share ownership was recorded in the name of a "slotholder." In most instances, "slotholders," such as the defendants, would and did offer and sell the securities of ISI/TX or IEC to a "piggy-backer," for which they would receive a commission in stock of the companies, or cash taken from the investors' funds. The "slotholder"/"piggy-backer" scheme was

devised and implemented by the defendants to disguise the actual number and location of the companies' shareholders and conceal the defendants' knowing and wilful violations of the securities registration requirements of the Securities Act of 1933.

41. **Dahlstrom** also encouraged and assisted investors residing in states other than Texas to form "Texas Trusts," through which these investors would join to purchase ISI/TX or IEC securities, as either "slotholders" or "piggy-backers." **Dahlstrom** devised and implemented the use of "Texas Trusts" to disguise the fact that ISI/TX or IEC investors resided in approximately 28 states, and conceal the defendants' knowing and wilful violations of the securities registration requirements of the Securities Act of 1933.

42. During the period from April 1991 to and including December 1991, the defendants, directly and with others, offered and sold stock in ISI/TX and IEC to over 500 investors located in approximately 28 states, thereby raising in excess of \$1.8 million.

#### THE EXECUTION OF THE SCHEME

43. On or about the dates, and in the approximate amounts, all as listed below,

**KARL L. DAHLSTROM,  
HUBERT LEON LEOPARD,  
KARLA D. DAHLSTROM, and  
RICHARD E. LOPEZ,**

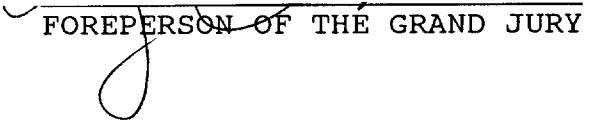
defendants herein, for the purpose of executing, and in attempting to execute, the scheme and artifice to defraud, each aiding and abetting the others and aided and abetted by others, did knowingly cause to be delivered by the United States Postal Service, according to the directions thereon, certain items as listed below, on or about the date listed:

<u>COUNT</u>	<u>DATE</u>	<u>INVESTOR</u>	<u>MATTER MAILED/RECEIVED</u>
6	8/20/91	Larry Koch	Check, \$ 1,000.00
7	8/21/91	John LeClair	Check, \$10,000.00
8	8/29/91	Jay Rasmussen	Check, \$ 2,500.00
9	8/30/91	M C Schraub	Check, \$ 3,000.00
10	8/30/91	Paul Verberne	Check, \$ 3,500.00
11	9/18/91	Joe Gregory	Check, \$30,000.00
12	9/20/91	Jerry Minor	Check, \$ 5,000.00
13	9/24/91	Dan Coward	Check, \$11,000.00
14	10/29/91	Leslie Buck	Check, \$50,000.00
15	10/31/91	Dayle Bailey	Check, \$ 2,000.00
16	11/1/91	Raymond Turner	Check, \$ 2,300.00

(In violation of Title 18, United States Code, Section 1341 and 2).

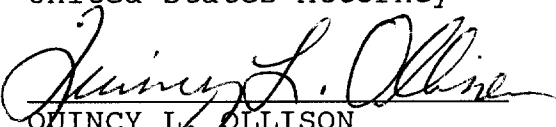
TRUE BILL:

  
**Original Signature on File**

  
FOREPERSON OF THE GRAND JURY

GAYNELLE GRIFFIN JONES  
United States Attorney

By:

  
QUINCY L. OLLISON  
Assistant United States Attorney