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CENTRAL DISTRICT OF CALIF.  
LOS ANGELES

FILED

8 UNITED STATES DISTRICT COURT  
9 FOR THE CENTRAL DISTRICT OF CALIFORNIA  
10 WESTERN DIVISION

11 SECURITIES AND EXCHANGE  
12 COMMISSION,

13 Plaintiff,

14 vs.

15 STEPHEN C. SAYRE, INDEPENDENT  
FINANCIAL REPORTS, INC., AND SILVER  
16 SCREEN INDUSTRIES, INC.,

17 Defendants.

Case No. CV 00-3800 MMM (Ex)

FIRST AMENDED COMPLAINT FOR  
VIOLATIONS OF THE FEDERAL  
SECURITIES LAWS

18  
19  
20  
21 Plaintiff Securities and Exchange Commission ("Commission") for its First  
22 Amended Complaint alleges:

23 JURISDICTION

24 1. The Commission brings this action pursuant to the authority  
25 conferred upon it by Section 20(b) of the Securities Act of 1933 ("Securities Act"), 15  
26 U.S.C. § 78t(b), and Section 21(d) of the Securities Exchange Act of 1934  
27 ("Exchange Act"), 15 U.S.C. § 78u(d), seeking to permanently restrain and enjoin  
28 Defendants from engaging in the transactions, acts, practices and courses of

1 business alleged herein. The Commission further brings this case pursuant to  
2 Section 20(b) of the Securities Act , 15 U.S.C. § 78t(b), and Section 21(d)(3) of the  
3 Exchange Act, 15 U.S.C. § 78u(d)(3), seeking civil penalties against Defendants.  
4 Defendants have, directly or indirectly, made use of the means or instrumentalities of  
5 interstate commerce, of the mails, or of the facilities of a national securities exchange  
6 in connection with the transactions, acts, practices and courses of business alleged  
7 herein.

### 8 SUMMARY

9 2. The Commission brings this action to stop a classic "pump and  
10 dump" scheme perpetrated by defendant Stephen C. Sayre ("Sayre"), a Los Angeles  
11 tree-trimmer who has masqueraded as a financial analyst, for the purpose of  
12 manipulating the market for the stock of eConnect. Sayre accomplished this scheme  
13 by releasing purportedly objective independent analyst reports touting eConnect  
14 stock through a corporation he formed called "Independent Financial Reports, Inc."  
15 ("IFR"), while simultaneously and secretly trading in eConnect stock. Within weeks  
16 after releasing his first "opinion," Sayre was able to dump his eConnect shares and  
17 realize illegal profits of approximately \$1.4 million.

18 3. Sayre engaged in the same scheme on two separate occasions in  
19 February and March 2000. After he purchased shares of eConnect stock through a  
20 nominee account in the name of Silver Screen Industries, Inc. ("Silver Screen"),  
21 Sayre distributed IFR "investment opinions" through Business Wire, touting eConnect  
22 as undervalued and projecting a short term increase in share price from two to six  
23 times the prevailing stock price. The opinions also stated that IFR held no eConnect  
24 stock even though Sayre, IFR's sole officer and director, held stock through the Silver  
25 Screen nominee accounts each time an opinion was issued. The opinions were  
26 posted on various Internet websites such as Silicon Investor and Big Charts.  
27 Additionally, eConnect posted at least one of the investment opinions on the Raging  
28 Bull message board devoted to the company.

1 4. eConnect's stock price rose dramatically during the time period in  
2 which Sayre released his opinions concerning eConnect. The increase in eConnect's  
3 share price is significantly attributable to false and misleading press releases issued  
4 by eConnect and its then president, Thomas S. Hughes ("Hughes"). Sayre's  
5 "opinions" had the effect of reinforcing the false and misleading press releases issued  
6 by eConnect and Hughes.

7 **THE DEFENDANTS**

8 5. Stephen C. Sayre ("Sayre"), age 43, resides in Hollywood,  
9 California. He purportedly operates a tree trimming business. He is also the sole  
10 officer, director and employee of IFR, and the President, Secretary and Treasurer of  
11 Silver Screen.

12 6. Independent Financial Reports, Inc. ("IFR") is a Nevada  
13 corporation based in Hollywood, California. Sayre has described IFR as an  
14 independent research corporation dedicated to offering opinions concerning publicly  
15 traded stocks. Sayre incorporated IFR on or about February 29, 2000.

16 7. Silver Screen Industries, Inc. ("Silver Screen"), who is named  
17 solely for the purpose of obtaining full relief, is a Nevada corporation also  
18 incorporated by Sayre and based in Hollywood, California. Silver Screen had  
19 accounts at E\*Trade Securities, Inc. ("E\*Trade") and Morgan Stanley Dean Witter  
20 ("MSDW") from which Sayre bought and sold eConnect stock. Those securities  
21 trades generated approximately \$1.4 million in trading profits.

22 **RELATED NON-PARTY ENTITIES**

23 8. eConnect is a Nevada corporation based in San Pedro, California.  
24 eConnect presently consists of two businesses, Internet gaming and technology  
25 development for greater ATM and smart card usage. Its stock is registered with the  
26 Commission pursuant to Section 12(g) of the Exchange Act and was quoted on the  
27 OTC Bulletin Board under the symbol "ECNC."

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1 9. On March 13, 2000, the Commission suspended trading in  
2 eConnect's securities pursuant to Section 12(k) of the Exchange Act because of  
3 questions concerning the adequacy and accuracy of publicly disseminated  
4 information concerning, among other things, the existence of a strategic alliance with  
5 a U.S. broker-dealer and a purported license arrangement with Palm, Inc.

6 10. On March 23, 2000, the Commission filed an emergency action  
7 against eConnect and its president, Hughes for violations of Section 10(b) of the  
8 Exchange Act and Rule 10b-5 thereunder. SEC v. eConnect and Thomas S.  
9 Hughes, Civil Action No. 00-CV-02959 MMM (RCx) (C.D. Cal.). On April 3, 2000,  
10 eConnect and Hughes each consented to permanent injunctions against them and  
11 other relief.

## 12 GENERAL ALLEGATIONS

### 13 **A. Sayre Purchases His First Block of eConnect Stock**

14 11. Sayre opened a nominee brokerage account at E\*Trade on or  
15 about January 27, 2000, under Silver Screen's name. Sayre was the sole person  
16 with trading authority over the account. From January 29 to February 28, 2000,  
17 Sayre purchased 96,100 eConnect shares at prices ranging from \$1.42 to \$1.81 per  
18 share, for a total purchase price of \$143,305.50. Sayre purchased 86,100 of those  
19 shares on February 25 and 28, 2000, just before he distributed an investment opinion  
20 under IFR's name concerning eConnect on February 29.

21 12. In sworn testimony before the Commission on March 31, 2000,  
22 Sayre falsely denied that either he or IFR had ever traded, directly or indirectly, in  
23 eConnect's securities. He also falsely denied ever maintaining a brokerage account,  
24 having control over a brokerage account or having a beneficial interest in a brokerage  
25 account.

### 26 **B. Sayre's First Investment Opinions on eConnect**

27 13. Sayre, who has no training or education in financial analysis,  
28 began masquerading as a financial analyst under IFR'S name and issuing "opinions"

1 | touting certain publicly traded companies in early 2000. On February 29, 2000, at  
2 | 6:06 a.m., Sayre publicly distributed an IFR investment opinion concerning eConnect  
3 | through Business Wire. The investment opinion later appeared on Internet websites  
4 | such as Silicon Investor and Big Charts. eConnect's Chief Information Officer also  
5 | posted the investment opinion on the Raging Bull message board thread devoted to  
6 | eConnect.

7 |           14. The opinion described IFR as "an independent research  
8 | corporation dedicated to tracking the best values on the market. Most specifically  
9 | stocks with the greatest potential for growth in the short and long term." The opinion  
10 | went on to state, "eConnect (OTC BB: ECNC) (ECNC), a tech stock, has been  
11 | selected this week to clearly be the company with the highest potential for growth."  
12 | The opinion also provided the following stock price projection, "ECNC is currently  
13 | trading at an extremely under valued [sic] \$1.50 - \$2.00 a share. This stock could  
14 | easily be trading between \$12 - \$25 or higher in the short term and then aggressively  
15 | move forward on the NASDAQ . . ." Finally, the opinion stated, "*IFR holds no stock in  
16 | ECNC and has not and will not be compensated for its opinion in regard to ECNC.*"  
17 | (Emphasis added.) IFR, through one of Sayre's other companies, paid Business  
18 | Wire to disseminate its report.

19 |           15. On March 1, 2000, at 6:03 a.m., Sayre publicly distributed another  
20 | IFR investment opinion on eConnect through Business Wire. The opinion also  
21 | appeared on the Silicon Investor and Big Charts websites. The March 1 opinion  
22 | stated that IFR believed eConnect, "will not only sustain its growth over the next  
23 | several weeks but could very easily be trading at volumes and numbers exponentially  
24 | above its current figures." The opinion again stated, "*IFR holds no stock in ECNC  
25 | and has not and will not be compensated for its opinion in regard to ECNC.*"  
26 | (Emphasis added.) Once again, IFR, through one of Sayre's other companies, paid  
27 | Business Wire to disseminate its opinion.

28 | \*\*

1 16. Contrary to the statements contained in the opinions, however,  
2 IFR actually did hold ECNC stock because Sayre, its sole officer and director, held  
3 96,100 shares through the Silver Screen nominee account.

4 **C. The Rise in eConnect's Stock Price and Trading Volume**

5 17. The issuance of the investment opinions coincided with a dramatic  
6 increase in the price and trading volume of eConnect's securities. From January 3 to  
7 February 28, 2000 (the last trading day before the investment opinions at issue here),  
8 eConnect stock traded between \$0.48 and \$1.77 per share, closing at \$1.39 on  
9 February 28. From February 29 to March 1, 2000, the stock traded between \$1.39  
10 and \$4.81 per share. The average trading volume, which was approximately 4.4  
11 million shares from January 3 to February 28, 2000, soared to 16.9 million shares  
12 between February 29 and March 1. The increases in eConnect's stock price and  
13 trading volume are attributable to both a false and misleading press release issued  
14 by eConnect, and the reinforcement provided to that release by Sayre's "opinions"  
15 issued through IFR.

16 **D. Sayre's eConnect Stock Trades**

17 18. After releasing the two investment opinions, and as the price of  
18 eConnect's stock began to rise, Sayre placed sell orders on March 1 and 2, 2000, for  
19 all the eConnect shares in the Silver Screen account at E\*Trade. He sold all 96,100  
20 shares on March 2, 2000, for a \$246,681.69 profit.

21 19. On March 3, 2000, Sayre bought 80,000 shares of eConnect for  
22 the E\*Trade Silver Screen account for prices ranging from \$4.66 to \$4.69 a share, for  
23 a total purchase price of \$374,278.35. On March 6, 2000, Sayre bought an additional  
24 1,200 shares of eConnect in the E\*Trade Silver Screen account for prices ranging  
25 from \$7.13 to \$7.16 a share, for a total of \$8,565.62.

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1           **E.     Sayre Issues Subsequent Opinions**

2           20.    On March 8, at 6:15 a.m., Sayre publicly distributed another IFR  
3 investment opinion on eConnect through Business Wire. The opinion also appeared  
4 on the Silicon Investor and Big Charts websites. The opinion stated that IFR believed  
5 eConnect "is very quickly rising to the target of \$12 a share by 3/08/2000, and should  
6 easily reach \$20 to \$25 a share in the very short term . . . eConnect could easily be  
7 trading at between \$100 - \$135 a share within the next 9 - 12 months of trading."  
8 The opinion again stated, "*IFR holds no stock in ECNC and has not and will not be*  
9 *compensated for its opinion in regard to ECNC.*" (Emphasis added.)

10           21.    Contrary to the statements contained in the opinion, however, IFR  
11 actually did hold ECNC stock because Sayre, its sole officer and director, held more  
12 than 80,000 shares through the Silver Screen account.

13           **F.     The Second Rise in eConnect's Stock Price and Trading**  
14                   **Volume**

15           22.    The issuance of the March 8 investment opinion coincided with yet  
16 another dramatic increase in the price and trading volume of eConnect's securities.  
17 From March 2 to 7, 2000, eConnect stock traded between \$1.40 and \$11 per share,  
18 closing at \$10 on March 7. On March 8, 2000, the stock traded between \$4.93 and  
19 \$20 per share, closing at \$16.50. The average trading volume, which was  
20 approximately 10 million shares from March 2 to 7, 2000, increased to 19.8 million  
21 shares on March 8, 2000. During this same time period, on March 3, 2000, eConnect  
22 issued a press release falsely claiming that it and its joint venture partner had a  
23 unique licensing arrangement with Palm, Inc. (the makers of the Palm series of hand-  
24 held computers). This press release had a material effect on eConnect's stock price  
25 during this period and, along with Sayre's "opinions," contributed to the significant  
26 increase in the stock price during this time period.

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28 \*\*

1 **G. Sayre Sells His Second Block of eConnect Stock**

2 23. On March 8, 2000, Sayre placed a sell limit order for 80,000  
3 shares of eConnect at \$20 a share. The sell limit order expired - without having been  
4 executed – the next day. Also on March 8, 2000, Sayre opened a brokerage account  
5 at MSDW. Like the E\*Trade account, the account at MSDW was opened under the  
6 name of Silver Screen. On March 9, 80,000 shares of eConnect were transferred  
7 from the E\*Trade account to the MSDW account. Sayre sold the 80,000 shares that  
8 same day, for prices ranging from \$18.75 to \$19.75 per share, for total proceeds of  
9 \$1,527,604.13 and a profit of \$1,153,325.78. After the transfer, 1,200 shares of  
10 eConnect remained in the E\*Trade account. Sayre sold these 1,200 shares on  
11 March 10, 2000, at a price of \$11 a share for total sale proceeds of \$13,200 (a profit  
12 of \$4,634.38).

13 24. In total, Sayre bought and sold a total of 177,300 shares of  
14 eConnect for total profits from his trading of approximately \$1,404,641.85.

15 **FIRST CLAIM FOR RELIEF**

16 **FRAUD IN THE OFFER OR SALE OF SECURITIES**

17 **Section 17(a) of the Securities Act**

18 **(Against All Defendants Sayre and IFR)**

19 25. Paragraphs 1 through 24 are realleged and incorporated by this  
20 reference.

21 26. Defendants, by engaging in the conduct described above, directly  
22 or indirectly, in the offer or sale of securities, by the use of means or instruments of  
23 transportation or communication in interstate commerce or by the use of the mails:

- 24 (a) with scienter, employed devices, schemes or artifices to defraud;  
25 (b) obtained money or property by means of untrue statements of  
26 material fact or by omitting to state material facts necessary in  
27 order to make the statements made, in light of the circumstances  
28 under which they were made, not misleading; or



1 (c) engaged in transactions, practices or courses of business which  
2 operated or would operate as a fraud or deceit upon the  
3 purchasers of such securities.

4 27. By reason of the facts and circumstances described above,  
5 Defendants violated, and unless restrained and enjoined will continue to violate,  
6 Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

7 **SECOND CLAIM FOR RELIEF**

8 **FRAUD IN CONNECTION WITH THE PURCHASE OR SALE OF SECURITIES**

9 **Section 10(b) of the Exchange Act**

10 **and Rule 10b-5 Thereunder**

11 **(Against All Defendants Sayre and IFR)**

12 28. Paragraphs 1 through 24 are realleged and incorporated by this  
13 reference.

14 29. Defendants, by engaging in the conduct described above, directly  
15 or indirectly, in connection with the purchase or sale of securities, by the use of the  
16 means or instrumentalities of interstate commerce, or of the mails, or of a facility of a  
17 national securities exchange, with scienter:

- 18 (a) employed devices, schemes or artifices to defraud;
- 19 (b) made untrue statements of material fact or omitted to state  
20 material facts necessary in order to make the statements made, in  
21 light of the circumstances under which they were made, not  
22 misleading; or
- 23 (c) engaged in acts, practices or courses of business which operated  
24 or would operate as a fraud or deceit upon other persons.

25 By reason of the facts and circumstances described above, Defendants violated, and  
26 unless restrained and enjoined will continue to violate, Section 10(b) of the Exchange  
27 Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

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**PRAYER FOR RELIEF**

Wherefore, the Commission respectfully requests that the Court:

I.

Issue findings of fact and conclusions of law that the Defendants Sayre and IFR, and each of them, committed the alleged violations.

II.

Order Defendants, and each of them, to disgorge all benefits gained and losses avoided as a result of their illegal conduct, and to pay prejudgment interest thereon.

III.

Order Defendants Sayre and IFR to pay civil penalties under Section 20(d) of the Securities Act and Section 21(d)(3) of the Exchange Act.

IV.

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

V.

Grant such other and further relief as this Court may determine to be just and necessary, including, but not limited to, an accounting from all Defendants.

DATED: April 14, 2000



Thomas A. Zaccaro  
Attorney for Plaintiff  
Securities and Exchange Commission

1 | **PROOF OF SERVICE**

2 | I am over the age of 18 years and not a party to this action. My business address is:

3 |  United States Securities and Exchange Commission, Pacific Regional Office, 11<sup>th</sup>  
4 | Floor, 5670 Wilshire Boulevard, Los Angeles, California 90036-3648,  
5 | Fax: (323) 965-3908.

6 | On April 14, 2000, I served the foregoing document entitled **FIRST AMENDED**  
7 | **COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS** on all  
8 | parties to this action addressed as stated on the attached service list:

9 |  **OFFICE MAIL:** By placing in sealed envelope(s), which I placed for collection and  
10 | mailing today following ordinary business practices. I am readily familiar with this  
11 | firm's practice for collection and processing of correspondence for mailing; such  
12 | correspondence would be deposited with the U.S. Postal Service on the same day in the  
13 | ordinary course of business.

14 |  **PERSONAL DEPOSIT IN MAIL:** By placing in sealed envelope(s), which I  
15 | personally deposited with the U.S. Postal Service. Each such envelope was  
16 | deposited with the U.S. Postal Service at Los Angeles, California, with first  
17 | class postage thereon fully prepaid.

18 |  **EXPRESS U.S. MAIL:** Each such envelope was deposited in a facility  
19 | regularly maintained at the U.S. Postal Service for receipt of Express Mail at  
20 | Los Angeles, California, with Express Mail postage paid.

21 |  **PERSONAL SERVICE:** I personally delivered each such envelope by hand to the  
22 | office of the addressee.

23 |  **FEDERAL EXPRESS:** By placing in sealed envelope(s) designated by Federal  
24 | Express with delivery fees paid or provided for, which I deposited in a facility  
25 | regularly maintained by Federal Express or delivered to a Federal Express courier, at  
26 | Los Angeles, California.

27 |  **FAX (BY AGREEMENT ONLY):** By transmitting the document by facsimile  
28 | transmission at the time shown on the attached transmission report. The transmission  
29 | was reported as complete and without error, and the attached transmission report was  
30 | properly issued by the transmitting fax machine.

31 |  **(Federal)** I declare that I am employed in the office of a member of the bar of this  
32 | Court, at whose direction the service was made.

33 | Date: April 14, 2000

34 | Magnolia M. Marcelo  
35 | **MAGNOLIA M. MARCELO**

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**SEC v. STEPHEN C. SAYRE, et al.**  
**United States District Court – Central District of California**  
**Case No. CV 00-03800 MMM (Ex)**

SERVICE LIST

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