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UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
TAMPA DIVISION
CLERK, U.S. DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
TAMPA, FLORIDA

SECURITIES AND EXCHANGE COMMISSION

Plaintiff,

v.

STOCKSTOWATCH.COM, INC., AND
STEVEN A. KING

Defendants.

CASE NO.
98-2198-CIV-T-26B
COMPLAINT FOR
INJUNCTIVE AND
OTHER RELIEF

Plaintiff Securities and Exchange Commission ("SEC" or "Commission") alleges as follows:

SUMMARY

1. The SEC brings this action to enjoin the defendants from touting and "scalping" securities in violation of the antifraud and antitouting provisions of the federal securities laws. Since October 1997, the defendants have touted the securities of at least five "microcap" companies over the Internet through e-mails sent to over 200,000 subscribers, and on the defendants' website. With respect to almost every stock touted by the defendants: (1) the volume and/or price increased sharply, sometimes by as much as 200%, shortly after the defendants' buy recommendation; and (2) the defendants took advantage of the market interest they created by selling into the inflated market large amounts of the stock they received in consideration for their promotional services. The defendants have realized profits in excess of \$1 million from sales of these securities. Moreover, the defendants failed to

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disclose that they had received stock as compensation from the issuers of the securities they touted. Nor did they disclose that they intended to sell the stock in contravention of their buy recommendations--a fraudulent practice known as "scalping."

2. Based on the defendants' violations described herein, the SEC seeks permanent injunctive and other equitable relief, including an accounting, disgorgement of ill-gotten gains with prejudgment interest, and civil penalties against each defendant.

VENUE AND JURISDICTION

3. This Court has jurisdiction over this action pursuant to Sections 20(d) and 22(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77t(d) and 77v(a)] and Sections 21(d), 21(e) and 27 of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 89t(d), 78t(e) and 78aa].

4. Certain of the acts, practices, courses of business, and transactions constituting violations of the Securities Act and the Exchange Act, as alleged in this Complaint, have occurred within the Middle District of Florida. Also, the office of Stockstowatch.com, Inc., and Steven A. King are located in the Middle District of Florida.

DEFENDANTS

5. Stockstowatch.com, Inc. ("STW"), is a Florida corporation, incorporated in January 1998. Prior to January 1998, STW operated as a sole proprietorship. Since at least October 1997, STW has been touting microcap stocks on an Internet website and in e-mails

from the personal computer of its owner, Steven A. King. STW claimed at one time to have more than 200,000 subscribers and followers of its touting service.

6. Steven A. King ("King"), age 31, owns STW and operates the company from his home in Sarasota, Florida. In 1997, King was also briefly the chairman of the board of Midland, Inc., one of the companies touted by STW. Unbeknownst to STW's subscribers and followers, King received and sold into the market shares of stock in at least five of the companies touted by STW.

ISSUERS TOUTED BY STW AND KING

7. Midland, Inc. ("Midland"), is a Colorado corporation currently based in Denver, Colorado. Midland's securities are registered with the Commission pursuant to Section 12(g) of the Exchange Act. Until the Commission temporarily suspended the trading of Midland securities on August 18, 1998, Midland's common stock, preferred stock, and warrants were quoted on the OTC Bulletin Board Service ("Bulletin Board").

8. Araldica Wineries Limited ("Araldica"), is a New York corporation that imports and markets wines, olive oils, and other specialty products from Italy. Araldica's securities are quoted on the Bulletin Board.

9. Electric & Gas Technology, Inc. ("ELGT"), is a Texas corporation that produces natural gas measurement equipment, defense electronic components, and vacuum-formed and injection-molded products. ELGT's securities are registered with the Commission pursuant to Section 12(g) of the Exchange Act and are listed on Nasdaq.

10. Surgical Safety Products, Inc. (“SURG”), is a Florida corporation engaged in medical research and product development. SURG’s securities are quoted on the Bulletin Board.

11. American Artists Entertainment Corporation (“AAFC”), is a multi-media and film production company based in Atlanta, Georgia. AAFC’s securities are registered with the Commission pursuant to Section 12(g) of the Exchange Act and are quoted on the Bulletin Board.

STW AND KING’S TOUTING AND SCALPING ACTIVITIES

12. STW described itself as “an Independent Publication dedicated to the factual and objective analysis of undervalued public companies” which are “poised to make substantial gains in the next three to twelve months.” STW offered its readers a “free” six month subscription which entitled the subscriber to receive STW stock recommendations via e-mail approximately five days before it released the recommendations to “millions of potential investors on the Internet” via STW’s website. STW found subscribers by obtaining e-mail lists from Internet service providers and by advertising on various Internet financial websites. King claimed that, by March 1998, STW had over 200,000 subscribers.

13. Between October 1997 and at least July 1998, STW fraudulently touted the stocks of at least five microcap companies listed in paragraphs 7 through 11 above. In exchange for a favorable Internet profile, each company paid STW or King with unrestricted or “free-trading” stock.

14. In virtually every case, STW's dissemination of the profile to its subscribers resulted in a dramatic increase in the profiled company's stock price and/or trading volume. Moreover, shortly after the publication of each profile, the defendants sold all, or a substantial portion of, their shares contrary to STW's buy recommendations. King and STW have thus far received over \$1 million from the stock sales of the five profiled companies. In none of the profiles did the defendants disclose their receipt of the profiled company's stock as compensation, or their practice of selling the stocks contrary to STW's buy recommendations.

Araldica Wineries Promotion

15. On September 22, 1997, Araldica engaged King to profile its company in exchange for 300,000 free-trading shares of Araldica common stock. On October 15, 1997, King received the 300,000 Araldica shares.

16. On October 25, 1997, STW sent its profile of Araldica to approximately 35,000 persons via unsolicited e-mail. The profile stated that Araldica's stock was "severely undervalued," "trading well below its book value," and "should be trading at over \$7.00." The Araldica profile concluded with a disclaimer, set in very small print, which described STW as an "independent" publication, and stated that "[King], members of [his] family, and/or entities with which they are affiliated may own stock of or have other financial dealings with the companies reviewed." (emphasis added). The disclaimer further stated that "King and/or his affiliates may act as consultants to certain such companies, and may receive

compensation for promotional or public relations services to such companies.” (emphasis added). The disclaimer did not disclose, however, that King had received shares of Araldica stock as compensation for touting the stock, or that he intended to sell the shares into the market.

17. After the profile was published, Araldica’s price steadily climbed from \$0.19 on October 24, 1997, the date before the profile was published, to \$0.57 on November 4, 1998. This represents an increase of 200%. Between October 27, 1997, and December 9, 1997, King sold or transferred all of his 300,000 shares of Araldica stock for a total of \$101,991.

Electric Gas and Technology Promotion

18. In November 1997, King was hired to profile ELGT. As payment for the ELGT profile, a private company controlled by ELGT’s president agreed to “sell” King 100,000 free-trading shares of ELGT stock at \$0.50 per share. In addition, ELGT’s president agreed to pay King a performance-based cash fee of \$50,000 in the event that ELGT stock traded at \$3.00 per share at any time during a six month period.

19. STW e-mailed its ELGT profile to its subscribers on Sunday, January 11, 1998. The profile was overwhelmingly positive, stating that “the opportunity for huge profits are banging (not knocking) on your front door.” In addition, the profile predicted that “this should be a double digit stock within the short term,” and advised its readers not to be surprised “if you wake up one day and hear on CNBC that the company stock reaches \$50.”

20. The disclaimer at the end of the ELGT profile was identical to the previous Araldica profile which stated that King and his affiliates “may” own stock in the profiled company and they “may” receive compensation for promotional services. The profile did not disclose that King had an option to purchase ELGT shares of stock as compensation or that he would receive a cash bonus if ELGT’s stock price reached \$3.00. Nor did the profile disclose that King intended to sell shares of ELGT soon after the profile was published.

21. During the first week of trading after the ELGT profile was sent to subscribers, the stock price increased from \$1.50 to \$2.16, or 69%. By March 20, 1998, ELGT’s stock reached its yearly high of \$3.00.

22. On January 15, 1998, four days after the defendants sent the ELGT profile to their subscribers, King received 100,000 shares of ELGT stock. Between January 15 and April 22, 1998, King sold approximately 77,000 shares of ELGT for a total of approximately \$144,000. King also received the \$50,000 cash performance bonus from ELGT’s president.

Surgical Safety Products Promotion

23. SURG entered into a consulting agreement with STW on March 19, 1998, in which STW agreed to profile SURG in exchange for 300,000 free-trading shares of SURG common stock. On April 9, 1998, STW received 300,000 shares of SURG stock and SURG common stock closed at \$0.87.

24. On April 21, 1998, STW e-mailed the SURG profile to its subscribers. In the profile, STW stated that “SURG represents the most positive upside potential of any

company we have ever profiled.” The profile continued: “[a]s a result of our own independent due diligence, our industry insiders believe this stock will be a \$20.00 stock within 18 months.”

25. The small print disclaimer that accompanied the SURG profile disclosed that STW had entered into a compensation agreement with SURG and that “at the time of signing of the agreement, the compensation equaled forty-three thousand and five hundred dollars.” The compensation amount was purportedly calculated by multiplying the 300,000 shares by \$0.145, the closing price of SURG on the date the agreement was signed. As was the case in previous profiles, however, STW did not disclose that it had received SURG stock and that it intended to sell the stock after the profile was disseminated to its subscribers.

26. On April 20, 1998, the day before the profile was released, SURG closed at \$0.96. Two days after the SURG profile was released, the price of SURG stock surged to its yearly high of \$3.13, an increase of approximately 200%. Between April 22, 1998, and July 6, 1998, STW sold or transferred 123,360 shares of SURG stock for a total price of \$573,753.

Midland Promotion

27. On March 19, 1998, STW executed an agreement with Midland in which it agreed to profile Midland on its website. As compensation for the profile, Midland agreed to sell to STW a total of 600,000 free-trading common shares at a fixed price of \$0.50 per share. The shares were to be released in 200,000 blocks and payment for the shares was not due until 30 days after their delivery. The agreement also provided for the issuance of 10,000

free-trading preferred shares to STW immediately after the profile was published on STW's website. On the date the consulting agreement was signed, Midland common stock closed at \$0.63. The first (and only) block of 200,000 Midland common shares was delivered to STW on April 6, 1998.

28. On Saturday, May 23, 1998, STW sent the Midland profile via e-mail to its approximate 200,000 "preferred subscribers." The profile claimed that STW had been following Midland for the past two months and that a Midland subsidiary owned the worldwide rights and patents to a "revolutionary" fuel additive. In fact, neither Midland, nor its subsidiary, owned the patent rights to the fuel additive.

29. The Midland profile further claimed that the Midland subsidiary had signed contracts with Exxon for further testing of the fuel additive and that "the news [was] going to turn the fuel industry upside-down." In fact, while Exxon had discussed the possibility of testing the fuel additive with Midland, it never signed any agreements to do so.

30. STW further advised its subscribers that based on Midland's "ability to generate long term growth and exit for the investor," Midland's stock "could reach \$75" and that Midland was a "play for everyone with very minimized downside."

31. The STW profile of Midland concluded with a disclaimer which advised, among other things, that at the time of the signing of STW's agreement with Midland, its compensation equaled \$242,000. There was no disclosure that STW received Midland stock and that STW intended to sell the stock immediately after the profile was published.

32. STW began selling its undisclosed Midland stock as soon as the market opened after the release of the Midland profile. On May 26, 1998, the first day of trading, STW sold 52,000 shares for a profit of \$88,640. During that day, Midland's stock price hit its yearly intraday high of \$2.63, closing at \$1.44 on trading volume of 1.5 million shares. This volume represented more than 50 percent of Midland's total issued and outstanding shares of common stock, and was an increase of approximately 107% from the previous day.

33. On May 27, 1998, the price of Midland's stock began to decline. In an attempt to halt the price decline, King e-mailed an "update" to his STW subscribers on May 27, 1998, advising them that a [unnamed] market maker was "shorting" Midland common shares and covering the short sales with Midland warrants. King claimed that the market maker had thus far made \$500,000 from the short sales. In order to stop the market maker from shorting additional Midland shares, King advised his subscribers to buy Midland warrants in addition to, or in lieu of, Midland common shares. King did not disclose that by May 27, 1998, STW had already sold 72,000 shares of Midland stock for \$114,000.

34. Between May 28 and June 11, 1998, as the price of Midland's stock steadily dropped, STW sold 80,000 additional Midland shares for \$57,000. STW never paid Midland the \$100,000 owed for the initial 200,000 shares it received, and thus, STW's total profit from the Midland stock sales was approximately \$172,000.

35. On June 16, 1998, approximately three weeks after the release of STW's Midland profile, Midland announced that its president had resigned amid fraud charges and

that it was canceling its acquisition of the subsidiary which purportedly owned the patents to the fuel-blending additive machine.

American Artists Entertainment Corporation Promotion

36. In July 1998, STW profiled AAFC to its subscribers as STW's July "pick of the month." STW received 220,000 free-trading shares of AAFC stock as compensation for its AAFC profile.

37. On Sunday, July 12, 1998, STW disseminated its profile of AAFC, stating that STW's "due diligence indicates that this company has very real prospects for immediate high exposure and therefore excellent potential for increased short term value, with equally valuable potential long term benefits."

38. The fine print disclaimer at the end of the AAFC profile disclosed that "in certain cases," and in the case of AAFC, Stockstowatch.com, Inc. and/or its affiliates act as consultants for the companies profiled, and receive compensation in the form of "cash or securities" for its services. The disclaimer further stated that STW "was paid four hundred thousand dollars for these services." There was no disclosure that STW received stock or that it intended to sell AAFC stock immediately after the profile was disseminated. On the date the STW profile was released, STW's shares of AAFC were valued at \$605,000.

39. Although the volume of trades in AAFC stock increased substantially during the first week of trading following the dissemination of STW's profile of AAFC, the stock price remained around \$3. By August 3, 1998, the price had dropped to \$1.78. On August 3,

1998, STW e-mailed a copy of an AAFC press release, dated July 31, 1998, to its subscribers in which AAFC announced that it had entered into a letter of intent to acquire “one the nation’s premier communications production companies.” In its e-mail to subscribers, STW claimed “AAFC is doing it again,” and encouraged “aggressive investors to get in now while the price is low.” On the next day, August 4, 1998, AAFC’s price increased from \$1.78 to \$2.28 (a 78% increase), and the trading volume increased from 700 to 65,300 shares.

40. STW began selling its AAFC shares on July 13, 1998, the day after STW’s initial profile of AAFC was e-mailed to its subscribers. By August 21, 1998, STW had sold approximately 73,225 shares for \$106,218.

FIRST CLAIM

FRAUD IN THE OFFER AND SALE OF SECURITIES

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

41. The allegations of paragraphs 1 through 40 of this Complaint are realleged and incorporated herein by reference, as if set forth here verbatim.

42. Defendants STW and King, at the various times stated herein, singly, in concert and with others, directly and indirectly, in the offer and sale of securities, by use of the means and instruments of transportation and communication in interstate commerce and by use of the mails, have :

- a. employed devices, schemes or artifices to defraud;

b. obtained money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and

c. engaged in transactions, practices or courses of business which operate or would operate as a fraud and deceit upon purchasers and prospective purchasers.

43. As a part of and in furtherance of the scheme, defendants STW and King, directly and indirectly, prepared and disseminated promotional materials over the Internet which recommended the purchase of securities of the companies described in paragraphs 15 through 40 above. The defendants failed to disclose that they intended to sell their personal holdings of securities of these companies in contradiction to their recommendations that investors purchase those same securities.

44. As a part of and in furtherance of the scheme, defendants STW and King, directly and indirectly, prepared and disseminated promotional materials over the Internet which contained untrue statements and misrepresentations of material facts, and omitted to state facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, including, but not limited to, those set forth in paragraphs 28 through 30 above.

45. Defendants STW and King have intentionally, knowingly and/or recklessly engaged in the acts and practices described in this First Claim. By reason of the foregoing,

defendants STW and King have violated, and unless enjoined, will continue to violate Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

46. By reason of the foregoing, defendants STW and King have violated, and unless enjoined, will continue to violate Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. § 77q(a)(2) and (3)].

SECOND CLAIM

FRAUD IN CONNECTION WITH THE PURCHASE AND SALE OF SECURITIES

**Violations 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**

47. The allegations of paragraphs 1 through 40 of this Complaint are realleged and incorporated herein by reference as if set forth here verbatim.

48. Defendants STW and King, singly, in concert and with others, at the various times alleged herein, directly and indirectly, in connection with the purchase and sale of securities, by use of the means and instrumentalities of interstate commerce and by use of the mails, have:

- a. employed devices, schemes and artifices to defraud;
- b. made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and

c. engaged in acts, practices and courses of business which operate as a fraud and deceit upon purchasers, prospective purchasers and other persons.

49. As part of and in furtherance of this scheme, defendants STW and King, directly and indirectly, prepared and disseminated promotional materials over the Internet, which recommended the purchase of securities of certain companies described in paragraphs 15 through 40 above. The defendants failed to disclose that they intended to sell their personal holdings of securities of these companies in contradiction to their recommendations that investors purchase those same securities.

50. As a part of and in furtherance of the scheme, defendants STW and King, directly and indirectly, prepared and disseminated promotional materials over the Internet which contained untrue statements and misrepresentations of material facts, and omitted to state facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, including, but not limited to, those set forth in paragraphs 28 through 30 above.

51. Defendants STW and King have intentionally, knowingly, and/or recklessly engaged in the devices, schemes, artifices to defraud, making of untrue statements and omissions, acts, practices and courses of business described in this Second Claim.

52. By reason of the foregoing, defendants STW and King have violated, and unless enjoined, will continue to violate the provisions of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

THIRD CLAIM

UNDISCLOSED COMPENSATION FOR STOCK PROMOTION

**Violations of Section 17(b) of
the Securities Act [15 U.S.C. § 77q(b)]**

53. The allegations of paragraphs 1 through 40 of this Complaint are realleged and incorporated herein by reference as set forth here verbatim.

54. Defendants STW and King, through the use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, published and circulated articles and communications which, though not purporting to offer securities for sale, described and recommended the purchase of certain securities described in paragraphs 15 through 40 above.

55. Defendants STW and King, directly and indirectly, received and were to receive consideration for such activities from the issuers of these securities and did not fully disclose the past or future receipt of such consideration and the amount thereof.

56. By reason of the foregoing, STW and King have violated, and unless enjoined will continue to violate Section 17(b) of the Securities Act [15 U.S.C. § 77q(b)].

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that the Court:

I.

Permanently enjoin defendants STW and King from violating Sections 17(a) and 17(b) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

II.

Order defendants STW and King to prepare and file with the Court and serve on plaintiff Commission an accounting, to be under oath, detailing all funds, securities or other assets each received, directly and indirectly, from the activities alleged herein.

III.

Order defendants to disgorge all ill-gotten profits or proceeds that they have received as a result of the activities alleged herein with prejudgment interest.

IV.

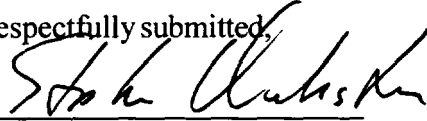
Order defendants to pay civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d) of the Exchange Act [15 U.S.C. § 79u(d)] for their violations of the federal securities laws as alleged in this Complaint.

V.

Order such further relief, both equitable and legal, including interim relief, as this Court may deem just and proper.

Dated: October 27, 1998

Respectfully submitted,



ROBERT A. BRUNIG
Trial Attorney
District of Columbia Bar NO. 408729

SPENCER C. BARASCH
District of Columbia Bar No. 388886

STEPHEN WEBSTER
Texas Bar No. 21053700

CHRISTOPHERE. KIRKPATRICK
Texas Bar No. 00791033

ALLYSON CHILDS
Texas Bar No. 007795188

Attorneys for Plaintiff
SECURITIES and EXCHANGE COMMISSION
801 Cherry Street, Suite 1900
Fort Worth, Texas 76102
Office (817) 978-3821
FAX: (817) 978-2809