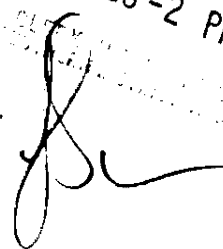


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7  
 8 **UNITED STATES DISTRICT COURT**

9 **FOR THE SOUTHERN DISTRICT OF CALIFORNIA**

10 SECURITIES AND EXCHANGE COMMISSION,

Case No. '99 CV 1613 BTM JFS

11 Plaintiff,

COMPLAINT FOR VIOLATIONS OF THE  
 FEDERAL SECURITIES LAWS

12 v.

13 NORTH AMERICAN CORPORATE  
 CONSULTANTS, INC., ROBERT LESLIE  
 14 MILLSTONE AND JAY FRANKLIN JOHNSON,

15 Defendants.


16  
 17 Plaintiff Securities and Exchange Commission  
 18 ("Commission") alleges:

19 **JURISDICTION AND VENUE**

20 1. This Court has jurisdiction over this action pursuant  
 21 to Sections 20(b), 20(d)(1), and 22(a) of the Securities Act of 1933  
 22 ("Securities Act") [15 U.S.C. §§ 77t(b), 77t(d)(1) & 78v(a)].

23 **SUMMARY**

24 2. From the Fall of 1995 through the Summer of 1998,  
 25 defendants North American Corporate Consultants, Inc. ("NACC"),  
 26 Robert Leslie Millstone ("Millstone") and Jay Franklin Johnson  
 27 ("Johnson") touted the stock of at least seven corporate clients,  
 28 including six microcap companies, to investors in several NACC



1 publications. Although the defendants' touts appeared to be  
2 independent, in fact, NACC received compensation, including  
3 \$189,751.77 in cash and stock worth approximately \$787,630.35, from  
4 NACC's corporate clients in exchange for touting their stock. The  
5 defendants' failure to disclose this compensation when touting the  
6 stocks violated Section 17(b) of the Securities Act [15 U.S.C. §  
7 77q(b)]. The Commission seeks permanent injunctive relief and civil  
8 penalties against NACC, Millstone and Johnson.

9 **THE DEFENDANTS**

10 3. North American Corporate Consultants, Inc. ("NACC")  
11 is an Arizona corporation with offices in California and Arizona.  
12 NACC is owned and operated by Millstone and Johnson. NACC is a  
13 financial public relations firm which promotes the stock of  
14 publicly-traded companies. Specifically, during the relevant  
15 period, NACC distributed to thousands of investors and brokers by  
16 mail or facsimile newsletters, entitled "Stock Spotlight" and  
17 "Market Vision," and the fliers and letter discussed below. Each  
18 newsletter was written or edited by Millstone and Johnson, and each  
19 featured recommendations of one or more stocks. Each newsletter  
20 included a telephone number for investors to contact NACC.

21 4. Robert Leslie Millstone ("Millstone") resides in  
22 Glendale, Arizona. He is the president and co-owner of NACC. He  
23 conducts NACC's Arizona operations from his home.

24 5. Jay Franklin Johnson ("Johnson") resides in Ramona,  
25 California. He is the vice president and co-owner of NACC. He  
26 conducts NACC's California operations from his home.

27 ///

28 ///

1                                    THE DEFENDANTS' STOCK TOUTING ACTIVITY

2                                    Touts of IAS Communications, Inc.

3                    6.    On or about June 5, 1998, NACC entered into an  
4 "Agreement for Financial Public Relations Services" with IAS  
5 Communications, Inc. ("IAS"). In the agreement, NACC agreed to  
6 perform certain "financial services" for IAS in exchange for 75,000  
7 shares of IAS stock, options to purchase 150,000 shares of IAS  
8 stock, and reimbursement to NACC of certain expenses.

9                    7.    NACC touted the stock of IAS in its Summer 1998  
10 "Stock Spotlight" newsletter. NACC's touts included describing IAS  
11 as "Possibly the Next Intel of Wireless Communications" on the fax  
12 cover sheet and stating in the newsletter that IAS had "investment  
13 potential that is off the charts."

14                  8.    In exchange for touting the stock of IAS, on or about  
15 June 29, 1998, NACC received approximately 25,000 shares of IAS  
16 stock, then valued at approximately \$2.063 per share, or \$51,575.

17                  9.    NACC's July 1998 "Stock Spotlight" newsletter failed  
18 to disclose that NACC had an agreement to receive compensation from  
19 IAS in exchange for touting IAS's stock and failed to disclose the  
20 amount of IAS stock NACC received.

21                                    Touts of Applied Cellular Technology, Inc.

22                  10.   On or about March 28, 1996, and November 19, 1996,  
23 NACC entered into "Agreement[s] for Financial Public Relations  
24 Services" with Applied Cellular Technology, Inc. ("Applied  
25 Cellular"). In the agreements, NACC agreed to perform certain  
26 "financial services" in exchange for a monthly cash retainer of  
27 \$3,000 and a monthly stock retainer of 1,000 shares of Applied  
28 Cellular stock. The agreements also provided for a "performance

1 bonus" payment to NACC of 5,000 shares of Applied Cellular stock for  
2 every \$1.00 increase in the price of Applied Cellular's stock.

3 11. NACC touted the stock of Applied Cellular in its  
4 October 1996, December 1996, and Fall 1997 "Stock Spotlight"  
5 newsletters. NACC's touts included publishing price "targets" for  
6 Applied Cellular's stock ranging from \$9 to \$20 per share based on  
7 "high growth, superior management, [and] explosive industry growth."

8 12. In exchange for touting Applied Cellular's stock,  
9 NACC received \$47,596.01 and 32,750 shares of stock valued at  
10 approximately \$160,937.75 (27,000 shares valued at approximately  
11 \$5.25 per share received on December 23, 1996, and 5,750 shares  
12 valued at approximately \$3.437 per share received in June 1997).

13 13. NACC's "Stock Spotlight" newsletters all failed to  
14 disclose that NACC had agreements to receive compensation from  
15 Applied Cellular in exchange for touting Applied Cellular's stock  
16 and failed to disclose the amounts of cash and Applied Cellular  
17 stock NACC had received.

18 **Touts of Galtech Semiconductor Materials Corporation**

19 14. On or about June 27, 1995, June 4, 1996, and August  
20 18, 1997, NACC entered into "Agreement[s] for Financial Public  
21 Relations Services" with Galtech Semiconductor Materials Corporation  
22 ("Galtech"). In the agreements, NACC agreed to perform certain  
23 "financial services" for Galtech in exchange for a total of 300,000  
24 shares of free trading Galtech stock, 100,000 shares of restricted  
25 stock, options to purchase additional shares, and reimbursement to  
26 NACC of certain expenses.

27 15. NACC touted the stock of Galtech in its Fall 1997  
28 "Stock Spotlight" newsletter. NACC's touts included publishing

1 sales, revenue and earnings projections for Galtech and estimating a  
2 "target" price of \$5.00 to \$5.50 for Galtech's stock, even though,  
3 in the Fall of 1997, Galtech's stock traded in the \$0.375 to \$0.60  
4 range.

5 16. In exchange for touting the stock of Galtech, NACC  
6 received approximately 663,000 shares of Galtech stock valued at the  
7 times they were received at approximately \$503,680.

8 17. NACC's Fall 1997 "Stock Spotlight" newsletter failed  
9 to disclose that NACC had agreements to receive compensation from  
10 Galtech in exchange for touting Galtech's stock and failed to  
11 disclose the amount of Galtech stock NACC received.

12 **Touts of Granite Golf Group, Inc.**

13 18. On or about August 13, 1997, and September 15, 1997,  
14 NACC entered into "Agreement[s] for Financial Public Relations  
15 Services" with Granite Golf Group, Inc. ("Granite Golf"). In the  
16 agreements, NACC agreed to perform certain "financial services" for  
17 Granite Golf in exchange for a monthly retainer of \$16,500 worth of  
18 Granite Golf stock and options to buy 250,000 shares (August 1997)  
19 and 300,000 shares (September 1997) of Granite Golf stock at  
20 particular bid prices.

21 19. On or about October 21, 1997, NACC published a flier  
22 entitled "2 Stocks 2 Watch," which featured Granite Golf. NACC  
23 touted the stock of Granite Golf, including asserting that Granite  
24 Golf ranked as the third largest golf management company in the  
25 nation.

26 20. In or around the Fall of 1997, NACC published a  
27 letter to potential investors in which it touted the stock of  
28 Granite Golf. NACC's touts included descriptions of Granite Golf's

1 growth potential and corporate acquisitions prospects.

2           21. On or about November 10, 1997, NACC published a one  
3 page flier to potential investors in which it touted the stock of  
4 Granite Golf. In this flier, NACC's touts included describing  
5 Granite Golf as a "likely acquisition target" due to its track  
6 record of growth and encouraging investors to "Be sure to put this  
7 one on your radar screen."

8           22. In exchange for touting the stock of Granite Golf,  
9 NACC received approximately 32,694 shares of Granite Golf stock  
10 valued at approximately \$48,062.60 (8,376 shares valued at  
11 approximately \$1.562 received on September 2, 1997, and 24,318  
12 shares valued at approximately \$1.438 per share received in October  
13 1997); as well as 30,714 shares of restricted stock.

14           23. NACC's October 1997 "2 Stocks 2 Watch" flier, Fall  
15 1997 letter to potential investors, and its November 1997 one page  
16 flier each failed to disclose that NACC had agreements to receive  
17 compensation from Granite Golf in exchange for touting Granite  
18 Golf's stock and failed to disclose the amount of Granite Golf stock  
19 NACC received.

20                           **Touts of R.M.S. Titanic, Inc.**

21           24. On or about April 9, 1997, NACC entered into an  
22 "Agreement for Financial Public Relations Services" with R.M.S.  
23 Titanic, Inc. ("RMS Titanic"). In the agreement, NACC agreed to  
24 perform certain "financial services" for RMS Titanic in exchange for  
25 a monthly cash retainer of \$3,000, 250,000 warrants exercisable into  
26 shares of common stock, and reimbursement of NACC's expenses.

27           25. NACC touted the stock of RMS Titanic in its January  
28 1997 "Stock Spotlight" newsletter. NACC's touts included publishing

1 a "target" price for RMS Titanic's stock of \$3.00 to \$3.25 based on  
2 "forecasted growth, explosive revenue base and 1997/98 estimated  
3 earnings."

4 26. In exchange for touting the stock of RMS Titanic,  
5 NACC received approximately \$50,349.76 from RMS Titanic.

6 27. NACC's January 1998 "Stock Spotlight" newsletter  
7 failed to disclose that NACC had an agreement to receive  
8 compensation from RMS Titanic in exchange for touting RMS Titanic's  
9 stock and failed to disclose the amount of cash NACC received from  
10 RMS Titanic.

11 Touts of Imaging Diagnostic Systems, Inc.

12 28. On or about August 11, 1995, NACC entered into an  
13 "Agreement for Direct Mail Newsletter Marketing" with Imaging  
14 Diagnostic Systems, Inc. ("Imaging Diagnostic"). In exchange for  
15 \$9,500 and 4,000 shares of Imaging Diagnostic stock, NACC agreed to  
16 publish a one page corporate profile of Imaging Diagnostic in NACC's  
17 "Market Vision" newsletter and to distribute the newsletter to  
18 35,000 investors and 3,000 brokers.

19 29. NACC touted the stock of Imaging Diagnostic in its  
20 September 1995 "Market Vision" newsletter. NACC's touts included  
21 stating that Imaging Diagnostic's sales were expected to grow from  
22 \$1.5 million to \$14 million in 1997, and that it was "reasonable to  
23 expect sales to break" \$25 million within three years.

24 30. In exchange for touting the stock of Imaging  
25 Diagnostic, on or about August 28, 1995, NACC received approximately  
26 14,500 shares of Imaging Diagnostic stock, then valued at  
27 approximately \$1.75 per share or \$23,375.

28 31. NACC's September 1995 "Market Vision" newsletter

1 stated that NACC's officers, directors or affiliates "may, from time  
2 to time have a position in the securities mentioned herein, or  
3 receive compensation for the dissemination of information on the  
4 company." The newsletter did not, however, disclose the prospective  
5 receipt by NACC of \$9,500 and 4,000 shares of Imaging Diagnostic  
6 stock pursuant to the agreement and did not disclose the amount of  
7 Imaging Diagnostic stock NACC in fact had received.

8 **Touts of CSL Lighting Manufacturing, Inc.**

9 32. On or about January 22, 1997, and February 5, 1997,  
10 NACC entered into "Agreement[s] for Financial Public Relations  
11 Services" with CSL Lighting Manufacturing, Inc. ("CSL Lighting").  
12 In the agreements, CSL agreed to perform certain "financial  
13 services" for CSL Lighting in exchange for a monthly retainer of  
14 \$3,500, \$50,000 to be paid in bi-monthly payments, and 100,000  
15 warrants exercisable into CSL Lighting common stock.

16 33. NACC touted the stock of CSL Lighting in its October  
17 21, 1997 "2 Stocks 2 Watch" flier. NACC's touts included statements  
18 that CSL Lighting's stock "is currently trading under book value of  
19 .65/share" and that "[j]oint ventures overseas will enable CSL to  
20 take advantage of international opportunities where the growth  
21 lies."

22 34. In exchange for touting the stock of CSL Lighting,  
23 NACC received approximately \$91,806.

24 35. NACC's October 21, 1997 "2 Stocks 2 Watch" newsletter  
25 failed to disclose that NACC had an agreement to receive  
26 compensation from CSL Lighting in exchange for touting CSL's stock  
27 and failed to disclose the amount of cash NACC received from CSL  
28 Lighting.



CLAIM FOR RELIEF

UNDISCLOSED COMPENSATION FOR STOCK TOUTING

Violations of Section 17(b) of the Securities Act

[15 U.S.C. § 77q(b)]

36. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 35 above.

37. Defendants NACC, Millstone and Johnson, by engaging in the above conduct, by use of means or instruments of transportation or communication in interstate commerce, or by the use of the mails, published, gave publicity to, or circulated notices, circulars, advertisements, newspapers, articles, letters, investment services or communications which, though not purporting to offer securities for sale, described such securities for consideration received or to be received, directly or indirectly, from an issuer, underwriter, or dealer, without fully disclosing the receipt, whether past or prospective, of such consideration and the amounts thereof.

38. By reason of the foregoing, defendants NACC, Millstone, and Johnson have violated, and unless enjoined will continue to violate, Section 17(b) of the Securities Act.

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PRAYER FOR RELIEF

Wherefore, the Commission respectfully requests that this Court:

I.

Enter final judgments of permanent injunction, in a form consistent with Fed. R. Civ. P. 65(d), against each defendant prohibiting future violations of Section 17(b) of the Securities Act [15 U.S.C. § 77q(b)];


II.

Enter orders requiring each defendant to pay civil penalties pursuant to Section 20(d) of the Securities Act; and

III.

Grant such other relief as this Court may deem just and necessary.

DATE: August 2, 1999

  
Stephen A. Cazares  
Attorney for Plaintiff  
Securities and Exchange Commission