

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

Case No.

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)
SECURITIES AND EXCHANGE COMMISSION,))
)
Plaintiff,)
)
v.)
) **COMPLAINT**
JOSEPH Y. ZUMWALT,)
)
Defendant.)
)
- - - - -x

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

NATURE OF THE ACTION

1. The SEC brings this civil action against Joseph Y. Zumwalt for his role in two fraudulent schemes. The first victimized several investors, including two nonprofit organizations, who lost millions of dollars in a purported hedge fund, EPG Limited Partners, Ltd. Zumwalt is responsible for numerous material misrepresentations and omissions to EPG investors concerning the use of their funds and EPG's purported assets and returns. Zumwalt also diverted investor funds for undisclosed purposes, including personal use.

2. The second scheme involved market manipulation of the common stock of Weida Communications, Inc., a publicly-traded company. Zumwalt participated in the manipulation of the market price for Weida common stock to approximately \$5 per share, in part to facilitate the sale of Weida stock in private transactions at approximately \$3 per share. Hundreds of investors, many elderly and unsophisticated, paid millions of dollars for Weida common stock at these inflated prices. Zumwalt received substantial amounts of investor funds from these transactions.

3. By engaging in such conduct, Zumwalt violated, and unless enjoined will continue to violate, Section 10(b) of the Securities Exchange Act of 1934 [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10B-5]. Zumwalt also demonstrated his unfitness to serve as an officer or director of a publicly-traded company pursuant to Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)].

JURISDICTION

4. This Court has jurisdiction over this action pursuant to Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e) and 78aa]. Zumwalt has, directly or indirectly, made use of the means or instrumentalities of interstate commerce and/or of the

mails in connection with the transactions described in this Complaint.

DEFENDANT

5. **Joseph Y. Zumwalt** ("Zumwalt"), age 44, was Chief Operating Officer and Portfolio Manager of EPG and Senior Vice President, Secretary and Chief Financial Officer of Weida at all relevant times. Prior to that, Zumwalt was a registered representative with numerous broker-dealers. He lives in Fort Lauderdale, Florida.

6. On January 9, 2006, Zumwalt pleaded guilty to the EPG hedge fund fraud in a parallel criminal case, U. S. v. Anthony F. Giordano and Joseph Y. Zumwalt, Case No. 05-80061-CR-ZLOCH.

RELEVANT ENTITIES

7. **EPG Limited Partners, Ltd.** ("EPG") was a Florida limited partnership with offices located in Fort Lauderdale, Florida, during the relevant period. EPG held itself out to be a capital management company set up for the purpose of running equity protection and growth hedge funds.

8. **Weida Communications, Inc.** ("Weida" or "company") is a New Jersey corporation formerly headquartered in Ft. Lauderdale, Florida. Weida marketed itself as providing

ground based transmitters and receivers that allow corporate and government customers to use satellite communications in China. During the relevant period, Weida's common stock was registered with the Commission under Section 12(g) of the Exchange Act and traded on the OTC Bulletin Board under the symbol WDAC.

9. On December 30, 2005, Weida announced publicly that it had no effective interest in the China operations. On March 29, 2006, Weida filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code.

SUBSTANTIVE ALLEGATIONS

EPG HEDGE FUND FRAUD

10. Zumwalt helped solicit over \$4.5 million of investor funds for a purported hedge fund administered by EPG between April 2001 and March 2002. Most of the money came from two nonprofit organizations. Less than 25 percent was used for investment purposes. The majority of investor funds were diverted for undisclosed matters, including personal use.

11. Meanwhile, Zumwalt provided investors with numerous false account documents and other information that misrepresented EPG's assets and returns. These included,

but were not limited to, account statements for the period ended December 31, 2003, stating falsely that one investor had a balance of \$877,637 and another investor had a balance of \$6,242,856.

12. In late 2004 and early 2005, Zumwalt told EPG investors they would receive shares of Weida common stock, which they were led to believe had value in large part because the market price appeared to hover around \$5 per share. This was a mirage for the reasons set forth below.

WEIDA MARKET MANIPULATION

13. Zumwalt manipulated the market price for Weida common stock in a number of ways from at least June 2004 through April 2005 (the "Relevant Period").

14. Weida common stock began trading at over \$5 per share on June 16, 2004 after a 4-to-1 reverse stock split. Thereafter, Zumwalt helped maintain Weida's stock price at artificially inflated levels by among other things, participating in numerous "marking-the-close" transactions. Marking-the-close is the practice of executing the last transaction of the day for a security in order to affect its closing price. Zumwalt caused numerous purchases of Weida common stock to be made in various accounts at or near the end of the day (16:00). The purpose of these

trades was to maintain the closing price of Weida common stock at artificially high levels, generally \$5 per share or above.

15. In addition to manipulating the company's stock price, Zumwalt helped create the false appearance of an active and liquid market for Weida common stock during the Relevant Period. For example, Zumwalt bribed at least one investor to buy Weida common stock on the open market. During the relevant period, buying activity by Zumwalt and his associates accounted for over 50% of the customer buy volume. On 42 of the 201 trading days their buying activity accounted for 100% of the customer buy volume (There was no customer buy volume for 46 of the 201 trading days).

16. Meanwhile, Zumwalt and his associates were busy selling Weida common stock at approximately \$3 per share in private transactions, thereby raising over \$10 million from over 200 investors between June 2004 and April 2005. Zumwalt participated in these selling efforts in a number of ways, including helping to pitch the company's stock during road shows with investors and participating in sales meetings with registered representatives at the Florida branch of GlobalVest Group, Inc., which had offices located

in the same building as Weida. With Zumwalt's knowledge and assistance, Weida paid GlobalVest brokers undisclosed commissions of approximately 15-to-20 percent for selling stock in private transactions.

CLAIM FOR RELIEF

**(Violations of Section 10(b) and
Rule 10b-5 of the Exchange Act)**

17. Plaintiff SEC hereby incorporates ¶¶ 1 through 16 with the same force and effect as if set out here.

18. In the manner described in ¶¶ 1 through 17, Zumwalt, in connection with the purchase or sale of securities, by the use of means or instrumentalities of interstate commerce or of the mails, directly or indirectly (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of material facts or omissions of material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon persons, in violation of Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] promulgated thereunder.

19. Zumwalt will continue to violate those antifraud provisions of the Exchange Act unless enjoined.

PRAYER FOR RELIEF

WHEREFORE, the SEC respectfully requests that this Court enter a judgment:

(a) permanently enjoining Zumwalt, and his agents, servants, employees, attorneys, and those in active concert or participation with him, who receive actual notice by personal service or otherwise, from violating Section 10(b) of the Exchange Act [15 U.S.C § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] promulgated thereunder;

(b) ordering Zumwalt to provide an accounting and to disgorge all ill-gotten gains from the conduct alleged herein, with prejudgment interest;

(c) ordering Zumwalt to pay a civil money penalty pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)];

(d) permanently prohibiting Zumwalt from serving as an officer or director of a publicly traded company pursuant to Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)];

(e) permanently prohibiting Zumwalt from participating in an offering of penny stock pursuant to Section 21(d)(6) of the Exchange Act [15 U.S.C. § 78u(d)(6)]; and

(f) granting such other relief as this Court may deem just and appropriate.

Dated: September __, 2006

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