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1 Nicolas Morgan, Cal. Bar No. 166441  
Diana K. Tani, Cal. Bar No. 136656  
2 Michele Wein Layne, Cal. Bar No. 118395  
Janet Rich Weissman, Cal. Bar No. 137023

3 Attorneys for Plaintiff  
4 Securities and Exchange Commission  
Randall R. Lee, Regional Director  
5 Sandra J. Harris, Associate Regional Director  
5670 Wilshire Boulevard, 11<sup>th</sup> Floor  
6 Los Angeles, California 90036-3648  
Telephone: (323) 965-3998  
7 Facsimile: (323) 965-3908

8 UNITED STATES DISTRICT COURT  
9 CENTRAL DISTRICT OF CALIFORNIA

CBM FMOx

10 SECURITIES AND EXCHANGE  
11 COMMISSION,

Case No. 03-4-55

12 Plaintiff,

COMPLAINT FOR VIOLATIONS  
OF THE FEDERAL SECURITIES  
LAWS

13 v.

14 EK-1, INC. and STEPHEN LEE  
15 ADLMAN,

16 Defendants.

17  
18 Plaintiff Securities and Exchange Commission ("Commission") alleges as  
19 follows:

20 JURISDICTION AND VENUE

21 1. This Court has jurisdiction over this action pursuant to  
22 Sections 20(b), 20(d)(1) and 22(a) of the Securities Act of 1933 ("Securities Act"),  
23 15 U.S.C. §§ 77t(b), 77t(d)(1) & 77v(a), and Sections 21(d)(1), 21(d)(3)(A), 21(e)  
24 and 27 of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C.  
25 §§ 78(u)(d)(1), 78u(d)(3)(A), 78u(e) & 78aa. Defendants have, directly or  
26 indirectly, made use of the means or instrumentalities of interstate commerce, of  
27 the mails, or of the facilities of a national securities exchange, in connection with  
28 the transactions, acts, practices and courses of business alleged in this Complaint.

1           2.     Venue is proper in this district pursuant to Section 22(a) of the  
2 Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C.  
3 § 78aa, because certain of the transactions, acts, practices and courses of conduct  
4 constituting violations of the federal securities laws occurred within this district.

5                                 SUMMARY

6           3.     This matter involves a fraudulent unregistered securities offering by  
7 Defendant EK-1, Inc. ("EK-1") and its President and Chief Executive Officer,  
8 Defendant Stephen Lee Adlman ("Adlman").

9           4.     EK-1 claimed to distribute an engine disruption device for use by law  
10 enforcement officers to stop high-speed vehicle pursuits. Between May 2000 and  
11 April 2002, EK-1 sold its stock and raised approximately \$700,000 from 64  
12 investors nationwide.

13           5.     In selling its stock to investors, EK-1 and Adlman made four  
14 misrepresentations and omissions. First, they represented that EK-1 distributed a  
15 patented device. In fact, EK-1 had only an unpatented prototype that was never  
16 distributed. Second, they claimed that EK-1 would have an initial public offering  
17 ("IPO") of its stock. In fact, EK-1 never was in a position to commence an IPO  
18 nor did it ever file a securities registration statement with the Commission. Third,  
19 they promised that EK-1 would spend 50% of investor proceeds distributing the  
20 device but actually spent only 15% on expenses related to the device. Finally,  
21 they stated that EK-1's success depended on Adlman but failed to disclose that he  
22 had been barred from associating with broker-dealers in a Commission  
23 administrative proceeding in 1972 or that he had been criminally convicted in a  
24 market manipulation scheme in 1974.

25           6.     This action seeks judgments of permanent injunction against EK-1  
26 and Adlman, and additionally seeks disgorgement with prejudgment interest, civil  
27 penalties, and an order prohibiting Adlman from serving as an officer or director  
28 of a public company.





1           Offer And Sale Of Securities

2           12. In approximately May 2000, EK-1 began to offer and sell its  
3 securities.

4           13. EK-1 sought to raise \$3.6 million through the sale of its common  
5 stock at a price of \$1 per share. When EK-1 stopped selling securities in April  
6 2002, it had 64 investors and had raised approximately \$700,000.

7           14. EK-1 solicited investors located throughout the United States.  
8 Adlman identified potential investors through lists that he purchased of  
9 prospective investors, known as "lead lists." Adlman then solicited investments in  
10 EK-1 by making unsolicited "cold calls" to prospective investors. In addition,  
11 Adlman hired sales agents to cold-call investors and supervised them by listening  
12 to their telephone conversations.

13           15. EK-1 sold its securities using two kinds of offering documents. EK-1  
14 sent a private placement memorandum ("PPM") to investors by Federal Express  
15 after the first telephone solicitation. The PPM did not include financial statements  
16 or any other type of financial information. EK-1 also sent a glossy color brochure  
17 to investors. These offering documents contained the misrepresentations and  
18 omissions discussed below. Adlman drafted both the PPM and the brochure.

19           Misrepresentations And Omissions

20           16. EK-1 and Adlman made four material misrepresentations and  
21 omissions to investors.

22           EK-1's Product

23           17. EK-1 represented to investors that it distributed a patented engine  
24 disruption device for use by law enforcement officers to stop high-speed vehicle  
25 pursuits.

26           18. At Adlman's direction, EK-1's sales agents featured the device in  
27 their sales presentations and told investors that the device was patented.

28           19. The PPM stated that EK-1 was in the business of distributing an



1 engine disruption device called "The EK-1." The PPM also stated that the EK-1  
2 device was "already patented."

3 20. The representations made by EK-1 and Adlman about the product  
4 were false because (a) EK-1 had only one unpatented prototype of a device;  
5 (b) EK-1 did not have a patent on the device; and (c) EK-1 had not distributed any  
6 devices.

### 7 Initial Public Offering

8 21. EK-1 represented to investors in its offering documents and through  
9 sales agent presentations that it would commence an IPO. For example, EK-1's  
10 brochure described the "five major elements to look for in a successful technology  
11 IPO" and concluded "EK-1 has all five!"

12 22. The representations made by EK-1 and Adlman about the IPO were  
13 false because the company was never in a position to commence an IPO.

14 23. EK-1's only significant business operations were the offer and sale of  
15 its securities. It had only one prototype of its product. It had no significant assets  
16 and never had any revenue. The company did not have financial statements, much  
17 less audited financial statements.

18 24. EK-1 never registered its securities offering with the Commission.

### 19 Use Of Proceeds

20 25. EK-1 represented to investors that it would use half of all money  
21 raised to implement the company's business plan and the remaining half for  
22 expenses relating to the offering.

23 26. The PPM stated: "Of the gross proceeds from this Offering, fifty  
24 percent (50%) is to be used to implement the Company's business plan. The  
25 Company will have broad discretion in the use of these funds. The remaining fifty  
26 percent (50%) is to be used for expenses of this Offering, including, but not  
27 limited to, professional and regulatory fees as well as costs associated with the  
28 preparation, printing and distribution of this memorandum including any and all

1 accompanying materials.” The PPM did not include a “business plan.” Instead,  
 2 the PPM stated that “the principal business of EK-1 evolves around distributing its  
 3 product known as the EK-1 which is a proprietary engine interruption device.”

4 27. The representations made by EK-1 and Adlman about the use of  
 5 investor proceeds were false. EK-1 spent only 15% of investor proceeds, much  
 6 less than the promised 50%, on costs related to the device. Specifically, EK-1  
 7 spent \$5,000 on background research and \$100,000 for development of its device.  
 8 EK-1 spent the remaining investor proceeds on its securities offering and on  
 9 payments to Adlman. Adlman controlled EK-1’s bank accounts and directed all of  
 10 its expenditures.

11 28. The following chart summarizes EK-1’s use of investor funds:

Purpose	Purpose, cont.	Amount	Percent
Distribution- related expenses:	Research and Development	\$105,000	15
Offering-related expenses:			
	Payments to Sales Agents	\$295,807	42
	Refunds to Investors	\$61,000	9
	Preparation and Printing of Offering Documents	\$47,815	7
	Office Rent	\$42,265	6
	Employee Salaries (Other Than Sales Agents)	\$40,845	6
	Telephone and Package Delivery Services	\$38,142	5
	Office Equipment and Supplies	\$27,004	3
	Lead Lists	\$6,429	Less than 1



1	Payments to		\$40,869	6
2	Adlman:			
3	TOTAL		\$705,176	100

4                    **Adlman's Background**

5                    29.    EK-1 touted Adlman as critical to the company's success. The PPM  
6 specifically identified Adlman as the person who would implement the company's  
7 business plan, including marketing and sales of the EK-1 device. The PPM  
8 summarized Adlman's background, stating that he had more than 35 years of  
9 marketing experience, but did not disclose his Commission bar order or his felony  
10 conviction.

11                    30.    The omission by EK-1 and Adlman of his Commission bar order and  
12 felony conviction was material. This information would have been important to  
13 investors because Adlman was EK-1's President and controlled its operations.

14                    **FIRST CLAIM FOR RELIEF**

15                    **UNREGISTERED OFFER AND SALE OF SECURITIES**

16                    **Violations of Sections 5(a) and 5(c) of the Securities Act**

17                    31.    The Commission realleges and incorporates by reference ¶¶ 1 through  
18 30 above.

19                    32.    Defendants EK-1 and Adlman, and each of them, by engaging in the  
20 conduct described above, directly or indirectly, made use of means or instruments  
21 of transportation or communication in interstate commerce or of the mails, to offer  
22 to sell or to sell securities, or to carry or cause such securities to be carried through  
23 the mails or in interstate commerce for the purpose of sale or for delivery after  
24 sale.

25                    33.    No registration statement has been filed with the Commission or has  
26 been in effect with respect to the offering alleged herein.

27                    34.    By engaging in the conduct described above, each of the defendants  
28

1 violated, and unless restrained and enjoined will continue to violate, Sections 5(a)  
2 and 5(c) of the Securities Act, 15 U.S.C. §§ 77e(a) and 77e(c).

3 **SECOND CLAIM FOR RELIEF**

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

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

6 35. The Commission realleges and incorporates by reference ¶¶ 1 through  
7 30 above.

8 36. Defendants EK-1 and Adlman, and each of them, by engaging in the  
9 conduct described above, directly or indirectly, in the offer or sale of securities by  
10 the use of means or instruments of transportation or communication in interstate  
11 commerce or by use of the mails:

- 12 a. with scienter, employed devices, schemes, or artifices to
- 13 defraud;
- 14 b. obtained money or property by means of untrue statements of a
- 15 material fact or by omitting to state a material fact necessary in
- 16 order to make the statements made, in light of the
- 17 circumstances under which they were made, not misleading; or
- 18 c. engaged in transactions, practices, or courses of business which
- 19 operated or would operate as a fraud or deceit upon the
- 20 purchaser.

21 37. By engaging in the conduct described above, each of the defendants  
22 violated, and unless restrained and enjoined will continue to violate, Section 17(a)  
23 of the Securities Act, 15 U.S.C. § 77q(a).

24 \*  
25 \*  
26 \*  
27 \*  
28 \*



1                                    **THIRD CLAIM FOR RELIEF**  
2                                    **FRAUD IN CONNECTION WITH THE**  
3                                    **PURCHASE OR SALE OF SECURITIES**  
4                                    **Violations of Section 10(b) of the Exchange Act**  
5                                    **and Rule 10b-5 thereunder**

6            38.    The Commission realleges and incorporates by reference ¶¶ 1 through  
7 30 above.

8            39.    Defendants EK-1 and Adlman, and each of them, by engaging in the  
9 conduct described above, directly or indirectly, in connection with the purchase or  
10 sale of a security, by the use of means or instrumentalities of interstate commerce,  
11 of the mails, or of the facilities of a national securities exchange, with scienter:

- 12            a.    employed devices, schemes, or artifices to defraud;
- 13            b.    made untrue statements of a material fact or omitted to state a  
14 material fact necessary in order to make the statements made, in  
15 the light of the circumstances under which they were made, not  
16 misleading; or
- 17            c.    engaged in acts, practices, or courses of business which  
18 operated or would operate as a fraud or deceit upon other  
19 persons.

20            40.    By engaging in the conduct described above, each of the defendants  
21 violated, and unless restrained and enjoined will continue to violate, Section 10(b)  
22 of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R.  
23 § 240.10b-5.

24                                    **PRAYER FOR RELIEF**

25            WHEREFORE, the Commission respectfully requests that the Court:

26                                    **I.**

27            Issue findings of fact and conclusions of law that the defendants committed  
28 the alleged violations.





1 terms of all orders and decrees that may be entered, or to entertain any suitable  
2 application or motion for additional relief within the jurisdiction of this Court.

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DATED: June 23, 2003

Janet Rich Weissman  
Janet Rich Weissman  
Attorney for Plaintiff  
Securities and Exchange Commission