

**06-1578**

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**UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF NEW YORK**

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**SECURITIES AND EXCHANGE COMMISSION,**

**Plaintiff,**

**- against -**

**FAISAL ZAFAR and  
SAMEER THAWANI,**

**Defendants,**  
-----X

**GLEESON, J.**

**COMPLAINT**

Plaintiff Securities and Exchange Commission ("Commission"), for its complaint against defendants Faisal Zafar ("Zafar") and Sameer Thawani ("Thawani") (collectively, the "Defendants"), alleges as follows:

**SUMMARY OF ALLEGATIONS**

1. The Commission brings this action to stop an ongoing securities fraud. Since late 2004 and as recently as March 2006, the Defendants have engaged in a scheme to manipulate the market for numerous thinly traded "microcap" or "smallcap" stocks, all of which are traded over the counter or on what was until recently called the Nasdaq SmallCap Market. The Defendants have generated a total of over \$873,000 in fraudulent profits by selling at least 24 of these stocks

at inflated prices after disseminating materially false information about the issuers on internet message boards.

2. The Defendants' market manipulation scheme applies classic "pump and dump" techniques to the internet. After buying shares at prevailing market prices, Zafar and Thawani use online aliases to post messages touting the stock and containing phony press release excerpts or other false "news" about the issuer. The fictitious subject matter includes huge business contracts, mergers and other alliances with major corporations such as Google, Kmart and Sun Microsystems, strategic acquisitions, and other dramatic developments designed to make these little known companies appear to be surefire investment opportunities. By using multiple online aliases, the Defendants make it appear as if the same breaking "news" is coming from multiple independent sources. In addition, the messages often make outlandish short-term price predictions purportedly based on the false information, and aggressively urge investors to buy the stock immediately. Once the stock price increases as a result of the Defendants' false messages, the Defendants immediately sell all their shares at the higher price. After their sales, the price of the stock quickly returns to its pre-manipulation level.

3. The Defendants have also preyed on fears about terrorism and international health epidemics to deceive investors. For example, after the London subway bombings and reports concerning a deadly "bird flu" virus, Zafar posted messages falsely stating that one issuer was receiving a contract from the Department of Homeland Security to improve security on New York City subways, and that another issuer was acquiring a company that produces "bird flu" vaccine.

4. More recently, the Defendants have targeted specific investors by sending emails to internet user groups devoted to low-priced stocks in tandem with the false messages. These

emails purport to alert investors to imminent news about the stock and urge them to capitalize by buying the stock. On several recent occasions, the Defendants have sent these emails to group members while simultaneously, or shortly thereafter, posting false messages on different internet message boards about the same stock under different user names. This strategy has increased the volume of purchases generated by the Defendants' fraudulent touting and, as a result, the Defendants' trading profits have been progressively increasing. In addition, although the Defendants' initial profits were modest due to the relatively small number of shares that they purchased, the size of their purchases gradually increased as they accumulated cash from the scheme, enabling them to take progressively larger positions.

5. This fraud is continuing. The Defendants have made at least \$242,499 in the last two-and-one-half months on just three stocks. The Defendants made a total of \$87,432 on January 17, 2006, after falsely telling investors that a small domestic construction company was getting a major reconstruction contract in Iraq. On February 13, 2006, the Defendants made a total of \$94,619 after falsely telling investors that Google was going to buy 50 million shares of the stock of an overseas medical equipment supplier. Two weeks later, the Defendants made \$60,447 by falsely telling investors that analysts were predicting a huge jump in the price of another small issuer because "major contract news" was expected.

6. The Defendants, directly or indirectly, are engaging, have engaged, and are about to engage in violations of Section 17(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §77q(a); Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §78j(b), and Rule 10b-5 thereunder, 17 C.F.R. §240.10b-5. Unless the Defendants are temporarily restrained and preliminarily and permanently enjoined, they will continue to engage in the scheme alleged herein, and in schemes of a similar type and object.

## JURISDICTION AND VENUE

7. The Commission brings this action pursuant to authority conferred by Section 20(b) of the Securities Act, 15 U.S.C. §77t(b), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d), seeking to temporarily restrain and preliminarily and permanently enjoin the Defendants from engaging in the wrongful conduct alleged herein. The Commission also seeks a final judgment ordering the Defendants to disgorge their ill-gotten gains and to pay prejudgment interest thereon, and ordering the Defendants to pay civil money 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. § 78u(d). The Commission also seeks equitable relief while this action is pending, including an order (a) freezing the Defendants' assets; (b) directing the Defendants to provide an accounting; and (c) providing for expedited discovery and prohibiting the destruction of documents.

8. This Court has jurisdiction over this action, and venue lies in this District, pursuant to Sections 20(b) and 22(a) of the Securities Act, 15 U.S.C. §§77t(b), 77v(a), and Sections 21(d), 21(e) and 27 of the Exchange Act, 15 U.S.C. §§77u(d), 77u(e) and 78aa. Each of the Defendants maintains a residence and transacts business in the Eastern District of New York. The conduct alleged herein occurred, in part, in various locations in the Eastern District of New York. Victims of the Defendants' fraud are located in the counties of Kings, Queens and Richmond and elsewhere in the Eastern District, as well as throughout the United States.

9. The Defendants, directly or indirectly, singly or in concert, have made use of the means or instruments of transportation or communication in, and the means or instrumentality of, interstate commerce, or of the mails, in connection with the transactions, acts, practices, and courses of business alleged herein.

### **THE DEFENDANTS**

10. **Zafar**, age 32, is a United States citizen and resides at 4 Bergers Court in Yaphank, New York. Zafar is listed in public records as the president and CEO of a company called Secure-Minds, Inc. ("Secure-Minds"), a New York corporation. Public records list Zafar's residence as Secure-Minds' business address. According to a Secure-Minds website, Zafar attended the New York Institute of Technology.

11. **Thawani**, age 27, is a citizen of India and resides at 55 Lindel Avenue in Lake Grove, New York. Thawani is listed on the Secure-Minds website as an officer of Secure-Minds. According to the Secure-Minds website, Thawani also attended the New York Institute of Technology.

### **THE DEFENDANTS' FRAUDULENT SCHEME**

12. Zafar and Thawani are engaged in a classic internet "pump and dump" manipulation scheme aimed at thinly traded stocks that they anonymously tout on message boards as "hot picks" while disseminating phony "news" about the issuers. The basic structure of the scheme is as follows: (1) one or both of the Defendants purchase shares of the issuer's stock in their online brokerage accounts; (2) the Defendants register multiple online identities ("User IDs") with internet message board services; (3) the Defendants post multiple messages attributed to their User IDs on internet message boards devoted either to the touted stock or to other, more widely followed stocks; (4) the messages contain materially false statements about the issuer and urge other investors to buy the stock; and (5) as soon as the stock price increases due to purchases spurred by the false statements, the Defendants sell their shares at the inflated price for a quick profit.

**The Defendants' Use Of Hundreds Of Different User IDs And Other Tactics To Conceal Their Identities**

13. The Defendants have created at least 300 different User IDs and have used them to post well over one thousand messages fraudulently touting the stock of at least 24 small-cap issuers, some of them on multiple occasions. The Defendants created all of these different User IDs in order to, among other things, conceal their identities from investors and thereby create the false appearance that numerous individuals were independently making the same favorable statements about the targeted stock. In each relevant instance, however, the false message can be traced back to one or the other of the Defendants.

14. To post information on a message board, a person must first create a user account with the message board service provider by selecting and registering a User ID and password for the account. The user thereafter logs in to his or her account with the message board service provider by entering his or her registered User ID and password, and that User ID appears under the heading of each posted message.

15. Each time a new User ID is created and each time a user logs in to an existing user account to post a message or for some other reason, the message board service provider records the Internet Protocol Address ("IP Address") of the user and the date and time at which the User ID was created or was used to log into an existing account. An IP Address is a multi-digit identification number assigned to the user's internet connection by his or her Internet Service Provider ("ISP"), the entity that connects individual users to the internet. The IP Address serves as a routing address for e-mail and other electronic data sent to or from that internet connection.

16. During the relevant period, Zafar and Thawani each maintained ISP accounts with Optimum Online, Inc. ("Optimum") at their respective home addresses. During the relevant

period, Zafar and Thawani used the internet connections provided through their Optimum ISP accounts to create and register multiple User IDs with internet message board service providers and to log in under those User IDs, including the User IDs to which the false messages described herein were attributed.

### **The Use Of Yahoo Groups To Enhance The Scheme**

17. In addition to posting false messages, the Defendants have recently also used web pages sponsored by Yahoo to enhance their scheme. Yahoo provides a service called Yahoo Groups that consists of web pages devoted to particular topics where internet users with common interests can exchange information. Each individual group has one or more moderators who can, among other things, send email messages simultaneously to all of the group members.

18. Zafar and Thawani have been moderators of groups devoted to low-priced, lesser-known stocks, including groups called "nasdaqriders" and "hottestchannelingstocks." On several occasions, they have sent email messages to group members encouraging them to buy shares of a stock while simultaneously, or shortly thereafter, posting false messages on several different internet message boards about the same stock under different User IDs. The groups moderated by Zafar and Thawani currently have a total of approximately 5,400 members.

### **Examples Of The Defendants' Manipulation**

19. Each time the Defendants manipulate a stock, the key elements of the scheme occur in the same rapid sequence, and often within the span of a single day: One or both of the Defendants buy the stock and post multiple false messages about the issuer under different User IDs; the price of the stock and its trading volume rise; the Defendants sell all of their stock at a profit; and the stock price returns to the prior level. The stocks manipulated by the Defendants in this manner include the following:

**Ocean Bio-Chemical, Inc.**

20. The common stock of Ocean Bio-Chemical ("Ocean Bio"), a Florida corporation based in Fort Lauderdale, Florida, is publicly traded on the Nasdaq Capital (formerly SmallCap) Market under the ticker symbol OBCI. The Defendants manipulated the market for Ocean Bio stock on multiple occasions for a total profit of \$148,424.

21. For example, from December 6 through December 9, 2005, Zafar purchased 82,300 shares of Ocean Bio stock at an average price of \$1.00 per share. On December 7 and December 8, 2005, Thawani purchased 30,196 shares of Ocean Bio stock at an average price of \$1.01 per share.

22. On December 12, 2005, the Defendants posted a series of false messages about Ocean Bio, and then sold all of their shares for a total profit of \$110,670. The stock had opened at \$1.31 per share on December 12 but rose as high as \$3.00 after the false messages were posted, only to drop back down to \$1.35 at the close once the Defendants had unloaded their position at average prices of \$2.08 (Zafar) and \$1.77 (Thawani) per share. On December 12, the trading volume was 4,811 percent higher than on the previous day.

23. Zafar posted one of the false messages on a Yahoo message board at 9:12 a.m. on December 12, 2005. In this message, Zafar stated that "analysts raised the price target on OBCI to \$4.30" because "news of major Navy contract is expected (hence the upgrade)." Shortly thereafter, Zafar posted several more messages under other User IDs containing similar misstatements. These statements were all materially false and misleading because, among other reasons, Ocean Bio is a small manufacturer of maintenance products for recreational vehicles that has never entered into a contract with the Navy or even engaged in discussions about a Navy contract.



24. While posting messages about a nonexistent Navy contract, Zafar also simultaneously sent email messages touting Ocean Bio to the members of a Yahoo Group of which he and Thawani were the moderators. For example, at 10:29 a.m. on December 12, 2005, Zafar sent an email message under the User ID "marketgeneral" to the members of the Yahoo Group called "hottestchannelingstocks." In the email, Zafar stated that "OBCI is the new pick" with a "price target [of] \$3.39," and urged the group members to place buy orders "above the ask" -- *i.e.* to offer to pay more than the current market price -- to ensure that they get their orders filled for this "fast moving stock." These statements were all materially false and misleading because, among other things, Zafar had no factual basis for the price prediction.

25. In another example, Zafar made approximately \$11,000 on January 10, 2005, after posting multiple false messages about Ocean Bio on different Yahoo message boards. One of the messages was posted on a message board devoted to Sirius Satellite Radio Inc. ("Sirius") and carried the following headline: "SIRI [Sirius] GIVES 1 BILLION DOLLARS TO OBCI." In the text of the message, Zafar went on to state that Ocean Bio is "expected to get a major MULTIMILLION DOLLAR \$\$\$ contract from Navy next week." Two minutes later, Zafar posted another message containing the same statement about a multimillion dollar Navy contract, but this time the message was posted on a Yahoo message board devoted to Google and carried the following headline: "GOOG [Google] GIVES 1 BILLION DOLLARS TO OBCI."

26. The statements described above in paragraph 25 were all materially false and misleading because, among other reasons, (i) Ocean Bio never entered into a contract with the Navy or even engaged in discussions about a Navy contract; and (ii) neither Sirius nor Google has ever invested or otherwise given any money at all, much less \$1 billion, to Ocean Bio.

**Healthcare Technologies Ltd.**

27. The common stock of Healthcare Technologies Ltd. ("Healthcare"), a company based in Petach Tikva, Israel, is publicly traded on the Nasdaq Capital Market under the ticker symbol HCTL. The Defendants made a total profit of \$94,619 manipulating the market for Healthcare stock in February 2006.

28. From February 7 through February 10, 2006, Zafar and Thawani bought a total of 257,390 shares of Healthcare stock at average prices of \$0.72 and \$0.82 per share, respectively.

29. On February 10, shortly after the above purchases and just before the close of trading, Zafar posted a false message about Healthcare on a Yahoo message board devoted to Google with the following headline: "GOOG [Google] TO BUY 50 MILLION SHARES OF HCTL [Healthcare]." On February 13, 2006 -- the next trading day -- Zafar posted a message on another Yahoo message board under a different User ID falsely stating that Healthcare "stock is about to double or triple in value" due to "ANALYSTS UPGRADES AND NEWS."

30. The statements contained in the messages described above in paragraph 29 were materially false and misleading because, among other reasons, (i) Healthcare is an overseas medical equipment supplier with \$12.1 million in annual revenue and a public float of about 7.8 million shares; (ii) Google never purchased or ever had any plans to purchase any shares, much less 50 million shares, of Healthcare stock; and (iii) the stock price predictions contained in the February 13 message lacked any basis in fact, as Healthcare stock was not the subject of any analyst upgrades and there were no published news reports about Healthcare at that time.

31. The price and volume of Healthcare stock increased substantially after the false messages were posted, and Zafar and Thawani sold all of their shares on February 13, 2006, at average prices of \$1.11 and \$1.16 per share, respectively, netting a profit of \$94,619. The stock

had opened on February 13 at \$0.85 per share and climbed to a high of \$1.31 per share, a 54% increase. Trading volume on February 13 increased by 1,728% from the previous trading day. After the Defendants' sales, the stock price dropped to \$0.75 at the close of trading on February 13, 2006.

**Williams Industries, Inc.**

32. The common stock of Williams Industries, Inc. ("Williams"), a Virginia corporation based in Manassas, Virginia, is publicly traded on the Nasdaq Capital Market under the ticker symbol WMSI. The Defendants made a total profit of \$87,433 manipulating the market for Williams stock in January 2006.

33. From January 11 through January 13, 2006, Zafar and Thawani purchased a total of 61,199 shares of Williams stock at average prices of \$2.15 and \$2.20 per share, respectively.

34. At 10:03 a.m. on January 17, 2006 -- the next trading day -- Zafar posted a message about Williams on a Yahoo message board falsely stating as follows: "Analysts raised price target to \$5.00, looks like WMSI [Williams] getting a major reconstruction contract in Iraq, which could cause a major rally and cause WMSI to break \$5.00 today."

35. The statements in the message described above in paragraph 34 were materially false and misleading because, among other reasons, (i) Williams has never entered into, or taken any steps to enter into, a contract involving construction or any other work in Iraq; and (ii) Williams is a small domestic construction company that does not do overseas projects.

36. The price and volume of Williams stock increased dramatically after this false message was posted, and Zafar and Thawani sold all of their shares that same day (January 17) at average prices of \$3.55 and \$3.29 per share, respectively, netting a profit of \$87,433. The stock had opened on January 17 at \$2.69 per share and climbed to a high of \$3.95 per share, a 47%

increase. Trading volume on January 17 increased by 8,124% over the previous trading day. After the Defendants' sales, the stock price dropped to \$2.32 at the close of trading on January 17, 2006.

**Firstwave Technologies, Inc.**

37. The common stock of Firstwave Technologies, Inc. ("Firstwave"), a Georgia corporation based in Atlanta, Georgia, is publicly traded on the Nasdaq Capital Market under the ticker symbol FSTW. The Defendants manipulated the market for Firstwave stock on multiple occasions between January 2005 and November 2005 for a total profit of \$79,326.

38. For example, on January 28, 2005, Zafar and Thawani purchased a total of 27,700 shares of Firstwave stock at average prices of \$1.88 and \$1.65 per share, respectively.

39. Also on January 28, shortly after the above purchases, Zafar posted three messages in quick succession falsely stating that Sun Microsystems, Sirius and Taser International were separately going to enter into strategic alliances with Firstwave and that each alliance "would be announced next week." These messages were posted on Yahoo message boards devoted to Sun Microsystems, Sirius and Taser International.

40. The statements in the messages described above in paragraph 39 were all materially false and misleading because, among other reasons, Firstwave has never entered into, or ever taken any steps to enter into, an alliance or other business combination with Sun Microsystems, Sirius, or Taser International, and neither Firstwave nor any of those other companies has ever made or planned to make any such announcement.

41. The price and volume increased dramatically after the false messages described above in paragraph 39 were posted, and Zafar and Thawani sold all their shares on January 28, 2005, at average prices of \$2.02 and \$2.08 per share, respectively, netting a profit of \$4,473.

The stock had closed at \$1.56 per share on the day before the manipulation began (January 27) and climbed as high as \$2.50 per share, a 60% increase, on January 28. Trading volume on January 28 increased by 5,376% from the previous trading day. After the Defendants' sales, the stock price dropped to \$1.86 at the close of trading on January 28, 2005.

42. The Defendants manipulated Firstwave stock again in November 2005, generating profits of \$72,397.

43. On November 17 and November 18, 2005, Zafar and Thawani purchased a total of 45,107 shares of Firstwave stock at average prices of \$1.84 and \$1.86 per share, respectively.

44. Shortly after the market closed on November 18, the Defendants posted three messages in rapid succession on three different Yahoo message boards falsely stating that a new contract for Firstwave "is going to cause HUGE jump in earnings, according to Wall Street analysts." The latter two of these messages added that "Wall Street is projecting \$6.00 by end of November." The Defendants posted additional messages on the next trading day (November 21) claiming that Firstwave's share price was going to climb to \$5.50 or \$6.00 per share.

45. The statements in the messages described above in paragraph 44 were all materially false and misleading because, among other reasons, (i) Firstwave has never been covered by any securities analysts; and (ii) no securities analyst or other financial professional publicly projected a price target for Firstwave stock in or about November 2005, much less a price target of \$6.00.

46. The price and volume increased dramatically after the false messages described above in paragraph 44 were posted, and Zafar and Thawani sold all their shares on November 21, 2005 at average prices of \$3.40 and \$3.67 per share, respectively, netting a profit of \$72,397.

The stock had closed at \$2.17 on November 18 and climbed as high as \$4.36 per share on

November 21, a 101% increase. Trading volume increased on November 21 by 2,055% from the previous trading day. After the Defendants' sales, the stock price dropped to \$2.45 at the close of trading on November 21, 2005.

47. The Defendants also made \$2,457 manipulating Firstwave stock in February 2005.

48. On February 18, 2005, Zafar and Thawani purchased 23,100 shares of Firstwave stock at average prices of \$1.78 and \$1.71 per share, respectively. Zafar then posted two messages on a Yahoo message board falsely stating that Google was giving \$240 million to Firstwave and was working with the company on a "contract worth over \$240 million . . . to build a consortium." The first such message was posted on the afternoon of February 18, and the second message was posted on the morning of February 22, which was the next trading day.

49. The statements described above in paragraph 48 were materially false and misleading because, among other reasons, (i) Google has never invested or otherwise given any money at all, much less \$240 million, to Firstwave or ever entered into a contract or other business relationship of any kind with Firstwave or taken any steps to do so; and (ii) Firstwave is a small business software company with annual revenue of \$7.4 million.

50. Over the course of February 18 and February 22, Zafar and Thawani sold all of their shares at average prices of \$1.90 and \$1.87 per share, respectively, netting a profit of \$2,457. After false messages on February 18 and 22 were posted, the price of Firstwave stock rose as high as \$2.10 on February 18 and \$2.09 on February 22, a 33% and 32% increase, respectively, from the closing price on February 17. Trading volume increased by 2107% on February 18 over the prior day and by another 262% on February 22.

**OraLabs Holding Corp.**

51. The common stock of OraLabs Holding Corp. ("OraLabs"), a Colorado corporation based in Parker, Colorado, is publicly traded on the Nasdaq Capital Market under the ticker symbol OLAB. The Defendants manipulated the market for OraLabs stock on multiple occasions, including as recently as March 2006, for a total profit of \$75,405.

52. On November 4, 2005, Zafar and Thawani purchased a total of 27,250 shares of OraLabs stock at average prices of \$2.33 and \$2.30 per share, respectively.

53. On November 7, 2005 -- the next trading day -- Zafar posted a message falsely stating that "Colgate Palmolive [was] likely [to] purchase [OraLab's] oral care division and re-sell [its] products under [the] Colgate name." This message further stated that OraLab's annual revenue would increase by "\$400 million" as a result and claimed that an "analyst team on CNBC recommended buying" the stock.

54. The statements in the messages described above in paragraph 53 were all materially false and misleading because, among other reasons, (i) Colgate Palmolive has never entered into or agreed to enter into, or taken any steps toward, a transaction involving the purchase of a business unit from OraLabs or the sale of OraLab products; nor has Colgate Palmolive ever had discussions with OraLabs about any business transaction; (ii) no one on CNBC or any other securities analyst publicly recommended buying OraLabs stock in or about November 2005, as the stock was not followed by any securities analysts at that time; and (iii) OraLabs' reported annual revenue for the prior fiscal year was \$13.1 million.

55. The price and volume of OraLabs stock increased dramatically after the false message described above in paragraph 53 was posted, and Zafar and Thawani sold all their shares on November 7 at average prices of \$2.88 and \$2.90 per share, respectively, netting a

profit of \$14,957. The stock had closed at \$2.30 per share on the day before the touting began (November 4) and climbed as high as \$4.10 per share on November 7, a 78% increase. Trading volume on November 7 increased by 1,628% over the previous trading day. After the Defendants' sales, the stock price dropped to \$2.88 at the close of trading on November 7, 2005, and was down to \$2.26 at the close of trading on the following day.

56. On January 26 and January 27, 2006, Zafar and Thawani purchased a total of 55,488 shares of OraLabs stock at average prices of \$1.76 and \$1.83 per share, respectively.

57. At 3:27 p.m. on January 27, 2006, after the above purchases, the Defendants began posting messages about OraLabs on a Yahoo message board falsely stating that "analysts predicted" that the stock would rise to "\$5.00 by next week on account [of] major contract news coming out."

58. The statements in the messages described above in paragraph 57 were all false and misleading because, among other reasons, (i) OraLabs had not entered into, and did not plan to enter into, a major contract on or about January 27, 2006; (ii) OraLabs never announced any contract news, or any news at all, during the relevant time; and (iii) no securities analyst had made any such price prediction, as OraLabs stock was not followed by any securities analysts at that time.

59. The price and volume OraLabs stock increased dramatically after the messages described above in paragraph 57 and other false messages were posted by the Defendants, and Zafar and Thawani sold all their shares on the next trading day (January 30) at average prices of \$2.59 and \$2.58 per share, respectively, netting a profit of \$44,304. The stock had closed at \$1.68 per share on January 26, the day before the touting began, and climbed as high as \$3.00 per share on January 30, a 79% increase. Trading volume increased by a total of 5,885% from



January 26. After the Defendants' sales, the stock price dropped to \$2.23 at the close of trading on January 30, 2006.

60. From March 2 through March 3, 2006, Zafar and Thawani purchased a total of 44,630 shares of OraLabs stock at average prices of \$1.89 and \$2.07 per share, respectively.

61. On March 6, 2006, Thawani posted multiple messages about OraLabs falsely stating that "analysts" were "upgrading" the stock and that "institutions may start buying" the stock.

62. The statements in the messages described above in paragraph 61 were all false and misleading because, among other reasons, (i) no analyst "upgraded" OraLabs stock, as the stock was not followed by any analysts at that time; and (ii) no institutional investor bought or started to buy the stock at or around that time, and there is no indication that any institutional investor was planning to buy the stock at or around that time.

63. The price and volume of OraLabs stock increased substantially after the false messages described above in paragraph 61 were posted, and Zafar and Thawani sold all their shares on March 6, 2006 at average prices of \$2.32 and \$2.40 per share, respectively, netting a profit of \$16,413. The stock had closed at \$1.85 per share on March 2, the day before the touting began, and climbed as high as \$2.20 per share on March 6, a 41% increase. Trading volume increased by a total of 837% from March 2. After the Defendants' sales, the stock price dropped to \$2.00 at the close of trading on March 6, 2006.

**PPT Vision, Inc.**

64. The common stock of PPT Vision, Inc. ("PPTV"), a Minnesota corporation based in Eden Prairie, Minnesota, is quoted on the Over-the-Counter Bulletin Board ("OTCBB") under

the ticker symbol PPTB. The Defendants made a total profit of \$53,957 manipulating the market for PPTV stock in November 2005.

65. On November 11 and November 14, 2005, Zafar and Thawani purchased a total of 38,900 shares of PPTV stock at average prices of \$1.35 and \$1.24 per share, respectively.

66. At 9:55 a.m. on November 14, 2005, Zafar and Thawani each posted an identical message on separate Yahoo message boards. Each message falsely stated as follows: "PPTV to formally announce huge international contract this week." This statement was materially false and misleading because, among other reasons, PPTV had not entered into, and did not plan to enter into, any international or other large contract at that time; nor did PPTV announce any such contract that week or at any time since the messages were posted.

67. The price and volume of PPTV increased dramatically after the false messages described above in paragraph 66 were posted, and Zafar and Thawani sold all their shares that same day (November 14) at average prices of \$2.69 and \$3.03 per share, respectively, netting a profit \$53,957. On November 14, 2005, PPTV stock opened at \$1.42 per share and climbed as high as \$4.30 per share, a 203% increase. Trading volume on November 14 increased by 1,705% from the previous trading day. After the Defendants' sales, the stock price dropped to \$1.79 at the close of trading on November 14, 2005.

**Lucille Farms Inc.**

68. The common stock of Lucille Farms Inc. ("Lucille"), a Delaware corporation based in Swanton, Vermont, is quoted in the Pink Sheets under the ticker symbol LUCY. The Pink Sheets are a daily publication compiled by the National Quotation Bureau with bid and ask prices of over-the-counter stocks. The Defendants made a total profit of \$45,387 manipulating the market for Lucille in April 2005.

69. On March 30 and April 1, 2005, Zafar and Thawani purchased a total of 83,600 shares of Lucille stock at average prices of \$1.25 and \$1.22 per share, respectively.

70. At 3:08 p.m. on April 1, 2005, after the above purchases, Zafar posted a message on a Yahoo message board falsely stating as follows: "Wall street just issued an alert on LUCY [Lucille], there's talk of a merger with KRAFT and price projection of \$3.25 by next week!"

71. The statements made in the message described above in paragraph 70 were materially false and misleading because, among other reasons, (i) Lucille and Kraft Inc. have never discussed merging or ever taken any steps to enter into a merger or other business combination, and no such merger ever occurred; (ii) no securities analyst or other financial professional publicly issued any information of any kind about a possible merger between Lucille and Kraft; and (iii) no securities analyst or other financial professional publicly issued such a price projection for Lucille stock on or about April 1, 2005.

72. The price and volume increased dramatically after the false message described above in paragraph 70 was posted, and Zafar and Thawani sold all of their shares on the next trading day (April 4) at average prices of \$1.80 and \$1.82 per share, respectively, netting a profit of \$45,387. On April 1, 2005, Lucille stock opened at \$1.17 per share and, after the Defendants continued to tout the stock with other false messages, the price climbed as high as \$1.99 per share on April 4, a 70% increase. Trading volume increased by 286% on April 1 from the previous trading day and by another 654% on April 4. After the Defendants' sales, the stock price dropped to \$1.48 at the close of trading on April 4, 2005.

**Centennial Specialty Foods Corporation**

73. The common stock of Centennial Specialty Foods Corporation ("Centennial") is quoted in the Pink Sheets under the ticker symbol CHLE. The Defendants made a total profit of \$42,905 manipulating the market for Centennial stock in May 2005.

74. On May 19 and May 20, 2005, Zafar and Thawani purchased a total of 115,600 shares of Centennial stock at an average price of \$0.50 per share.

75. At 3:15 p.m. on May 20, 2005, shortly after the above purchases, Thawani posted a message on a Yahoo message board falsely stating that diet conglomerate Atkins Inc. was going to acquire Centennial and market its products under the Atkins name.

76. The statements in the message described above in paragraph 75 were materially false and misleading because, among other reasons, (i) Centennial and Atkins have never agreed to, or even discussed, an acquisition of Centennial by Atkins or ever taken any steps to enter into any type of business combination, and no such acquisition or similar transaction ever occurred; and (ii) Centennial and Atkins have never entered into or agreed to enter into, or taken any steps toward, any type of transaction involving the marketing of Centennial products by Atkins.

77. The price and volume of Centennial stock increased dramatically after the false message described above in paragraph 75 was posted, and Zafar and Thawani sold all their shares on the next trading day (May 23) at average prices of \$0.87 and \$0.93 per share, respectively, netting a profit of \$42,905. On May 20, 2005, Centennial stock opened at \$0.58 per share and, after the Defendants continued to tout the stock with other false messages, the price climbed as high as \$1.04 per share on May 23, a 79% increase. Trading volume increased by 119% on May 20 from the previous trading day and by another 132% on May 23. After the Defendants' sales, the stock price dropped to \$0.60 at the close of trading on May 23, 2005.

**Precision Optics Corporation, Inc.**

78. The common stock of Precision Optics Corporation, Inc. ("Precision Optics"), a Massachusetts corporation based in Gardener, Massachusetts, is quoted on the OTCBB under the ticker symbol POCI. The Defendants manipulated the market for Precision Optics stock on multiple occasions between January and May 2005, netting a total profit of \$36,408.

79. For example, from March 15 through March 21, 2005, Zafar and Thawani purchased a total of 79,470 shares of Precision Optics stock at average prices of \$1.11 and \$1.03 per share, respectively.

80. The Defendants began falsely touting Precision Optics stock on March 18, 2005, and continued to post fraudulent messages over the next several days. For example, at 9:44 a.m. on March 21, 2005, Zafar posted a message on a message board maintained by Yahoo falsely stating as follows: "Seems like News PR of POCI's revolutionary new optical endoscope is to be released this week." The statements in this message were materially false and misleading because, among other reasons, Precision Optics had neither developed nor planned to announce an optical endoscope product of any kind at that time, and no such announcement has ever occurred.

81. The price and volume of Precision Optics stock increased dramatically after the false message described above in paragraph 80 was posted, and Zafar and Thawani sold all their shares on March 21 at average prices of \$1.38 and \$1.48 per share, respectively, generating a profit of \$21,230. Precision Optics stock had opened at \$1.08 per share on March 18, the day on which the Defendants first began touting Precision Optics stock, and after the Defendants continued posting false messages, the price climbed as high as \$1.63 per share on March 21, a 51% increase. Trading volume increased by 1,295% on March 18 from the previous trading day

and by another 608% on March 21. After the Defendants' sales, the stock price dropped to \$1.19 at the close of trading on March 21, 2005.

82. On another occasion, in January 2005, the Defendants used a different set of misrepresentations to manipulate Precision Optics stock. On January 6, 2005, Zafar purchased 12,000 shares of Precision Optics stock. The next day, Zafar posted the following two false messages under different User IDs on a Yahoo message board: (i) "EBAY BUYS MILLIONS OF SHARES OF POCI [Precision Optics]"; and (ii) "Starting Monday, POCI will sell revolutionary new breakthrough optical laser lenses used in conjunction with chemotherapy. Use of such lenses in testing has been proven to dramatically decrease cancer growth in cancer patients! The new technology is being heavily sought after by government hospitals and private cancer clinics."

83. The statements in the messages described above in paragraph 82 were all materially false and misleading because, among other reasons, (i) eBay never bought, or planned to buy, any shares, much less millions of shares, of Precision Optics stock and never made any other type of investment in Precision Optics; and (ii) Precision Optics has neither developed nor sold optical laser lenses for use in conjunction with chemotherapy or any other such product for use in government hospitals or private cancer clinics.

84. The price and volume of Precision Optics stock increased dramatically after the false messages described above in paragraph 82 were posted, and Zafar sold all his shares on January 6, netting a profit of \$2,933. On January 6, the price rose by as much as 51% over the prior day's closing price, and the volume increased by 1,272% in that same period.

**CTI Industries Corp.**

85. The common stock of CTI Industries Corp. ("CTI"), an Illinois corporation based in Barrington, Illinois, is publicly traded on the Nasdaq Capital Market under the ticker symbol CTIB. The Defendants manipulated the market for CTI stock on multiple occasions for a total profit of \$30,967.

86. On January 31, 2005, Zafar purchased 20,800 shares of CTI stock. On February 1, 2005, Zafar posted multiple messages on Yahoo message boards at various times under different User IDs, including messages falsely stating that CTI "JUST GOT A MAJOR \$200 MILL CONTRACT IN IRAQ." This statement was materially false and misleading because CTI, a manufacturer of balloons and flexible packaging with annual revenue of \$37.2 million, has never received a contract, much less a \$200 million contract, to perform work in Iraq of any kind.

87. The price and volume of CTI stock increased dramatically after the false messages described above in paragraph 86 were posted, and Zafar sold all his shares on February 1, netting a profit of \$13,126. The stock price rose by as much as 50% on February 1, and the trading volume increased that day by 889%.

88. On March 4, 2005, Zafar and Thawani purchased a total of 41,300 shares of CTI stock. On the next trading day (March 7), Zafar posted a message falsely stating that CTI had received a "MAJOR CONTRACT WITH SOME TOP NAMES COMPANYS LIKE CISCO, MICROSOFT, AND IBM," and that a "NEWS RELEASE [IS] EXPECTED NEXT WEEK." These statements were all materially false and misleading because, among other reasons, CTI has never received, or taken any steps to enter into, a contract of any kind with Cisco, Microsoft, or IBM; nor did CTI or any of those companies issue a news release about any such contract.

89. The price and volume of CTI stock increased dramatically after the false message described above in paragraph 88 was posted, and Zafar and Thawani sold all their shares on March 7, netting a profit of \$17,840. On March 7, the price of CTI stock rose by as much as 60%, and the trading volume increased by 2,186%, over the prior trading day.

**Dickie Walker Marine, Inc.**

90. The common stock of Dickie Walker Marine, Inc. ("Dickie Walker"), a Delaware corporation based in Oceanside, California, is publicly traded on the Nasdaq Capital Market under the ticker symbol DWMAC. The Defendants manipulated the market for Dickie Walker stock on multiple occasions between November 2004 and February 2005, netting a total profit of \$23,292.

91. For example, on November 19, 2004, Zafar purchased 7,000 shares of Dickie Walker stock at an average price of \$1.06 per share. On November 19, immediately before and after this purchase, Zafar posted at least twenty messages on an internet message board maintained by the Lion.com aggressively touting Dickie Walker stock as a great buying opportunity. Two of these messages made false statements about Dickie Walker obtaining a government contract. One of these messages stated as follows: "DWMA WORKING ON A CONTRACT WORTH OVER 20 MILLION DOLLARS FROM THE COAST GUARD." Zafar also posted a virtually identical message under the same User ID later that afternoon.

92. The statements in the messages described above in paragraph 91 were materially false and misleading because, among other reasons, (i) Dickie Walker has never had discussions with the United States Coast Guard or taken any steps to enter into a contract or other business relationship of any size with the United States Coast Guard, and Dickie Walker never entered



into any such contract; and (ii) Dickie Walker is a supplier of nautical gift items with annual revenue of \$1.7 million.

93. Zafar sold all of his Dickie Walker stock on the next trading day (November 22) after the false messages described above in paragraph 91 were posted, at a price of \$1.37 per share, netting a total profit of \$2,029. On November 22, 2004, the volume of Dickie Walker stock increased by more than 222% over the prior trading day and the stock price climbed to a high of \$1.88 per share on November 22, a 96% increase over the closing price on the prior trading day. After Zafar sold his Dickie Walker stock, the price dropped to \$1.32 at the close of trading on November 22, 2004.

94. The Defendants used a different set of misrepresentations to manipulate Dickie Walker stock again in January 2005, this time realizing a total profit of \$14,576. On January 13, 2005, Zafar and Thawani bought a total of 27,350 shares of Dickie Walker stock at average prices of \$1.02 and \$0.93 per share, respectively. Later on the morning of January 13, Zafar posted a message about Dickie Walker on a Yahoo message board devoted to Sirius with the following headline: "SIRI [Sirius] TO BUY OUT DWMA." The text of the message stated that Dickie Walker stock is "blowing up on expectations of merger with SIRI." These statements were materially false and misleading because, among other reasons, Dickie Walker and Sirius have never discussed merging or ever taken any steps to enter into a merger or other business combination, and no such merger ever occurred.

95. After Zafar posted the message described above in paragraph 94, the price of Dickie Walker stock increased to a high of \$2.00 per share on January 13, an increase of 135% from the prior day's closing price. Trading volume increased on January 13 by 3,902% from the previous day. Zafar and Thawani sold all their shares of Dickie Walker stock on January 13 at

average prices of \$1.55 and \$1.65 per share, respectively, netting a profit of \$14,576. After their sales, the stock price dropped to \$1.03 at the close of trading on January 13, 2005.

**Spar Group, Inc.**

96. The common stock of Spar Group, Inc. ("Spar"), a Delaware corporation based in Tarrytown, New York, is publicly traded on the Nasdaq Capital Market under the ticker symbol SGRP.

97. On November 30, 2004, Zafar purchased 7,000 shares of Spar stock at an average price of \$1.45 per share. After Zafar's purchase, he and Thawani posted on three different message boards false messages that consisted of fabricated press releases attributed to Spar and Kmart Holding Corp ("Kmart").

98. Less than an hour after he purchased Spar stock, Zafar posted a message on a message board devoted to Spar that purported to excerpt an actual Spar press release announcing a \$29.2 million arbitration award from Macy's, as follows:

SAN DIEGO--(BUSINESS WIRE)--Nov. 30, 2004--SPAR Group Inc (NASDAQ:SGRP) today announced it will be receiving a \$29.2 million award next week resulting from its arbitration proceeding with Federated department stores subsidiary Macy's.

99. On December 3, 2004, Zafar and Thawani each posted on two other message boards an identical message that purported to be an actual Kmart press release announcing a \$56 million contract with Spar, as follows:

Troy, MI--Friday 10:35 am (ASSOCIATED PRESS)  
Kmart Holding Corp. (NASDAQ: KMRT) announced today that it will be appointing the services of international merchandiser SPAR Group, Inc. (NASDAQ: SGRP) to assist in the opening of 48 new stores in the USA and 18 new stores in Europe. The contract is expected to yield approximately \$56 million revenue for SPAR Group Inc. over the next one year, while expanding Kmart retail in Europe and USA. Rachel Giovanni, spokesperson for Kmart quotes "We are happy to announce this new, mutually beneficial relationship with SPAR Group Inc. Kmart will use

SPAR Group's expertise and experience in international merchandising to further expand our chain in Europe, and SPAR Group, Inc. will leverage Kmart's financial resources to expand locations in Europe." Exact financial details will be announced on December 10th, 2004.

100. The statements contained in the messages described above in paragraphs 98 and 99 were all materially false and misleading because, among other reasons: (i) Spar has never announced that it had received or would receive, and has never received, any arbitration award from Federated Department Stores, Inc., or from any of its subsidiaries, including Macy's, or even been a party to any such arbitration proceeding; (ii) Kmart has never announced that it had entered into or agreed to enter into, and has never entered into or agreed to enter into or even discussed, a contract or other business relationship with Spar; and (iii) no one named Rachel Giovanni worked for Kmart.

101. After each phony press release described above in paragraphs 98 and 99 was posted, the price of Spar stock increased by an average of approximately 50 percent. The volume increased by 419% on November 30, the day on which the Macy's message was posted, and by another 295% on December 3, the day on which the Kmart message was posted. Zafar sold all his Spar stock -- a portion after each phony press release -- at an average price ranging from \$1.50 to \$1.55 per share, for a total profit of \$271. After Zafar's sales, the stock price dropped to \$1.39 at the close of trading on December 3, 2004.

#### **Other Stocks Manipulated By The Defendants**

102. In addition to the conduct described above, the Defendants have used the same techniques to manipulate the market for at least 12 other stocks that are publicly traded on the Nasdaq Capital Market or quoted on the OTCBB or in the Pink Sheets. In each instance, the Defendants created multiple User ID aliases, posted dozens of materially false and misleading messages on different internet message boards under those aliases, and timed their trading to take

advantage of the resulting price and volume increases. In each instance, the price and trading volume of the stock increased substantially after the false messages were posted and, after the Defendants sold their stock, returned to the levels that existed before the Defendants' activities. These additional stocks, together with the material misrepresentations and total profits made by the Defendants in each case, include the following:

- (a) **Kent Financial Services, Inc.** ("Kent"). The Defendants made a total of \$981 manipulating Kent stock in October 2005 by, among other things, making the following material misrepresentations about Kent on a Yahoo message board: "BIRD FLU VACCINE STOCK . . . ALERT OUT ON KENT . . . ACQUIRING BIRD FLU VACCINE PRODUCING COMPANY will get approximately \$930 million worth of business THIS QUARTER ALONE."
- (b) **Trans-Industries, Inc.** ("Trans-Industries"). The Defendants made a total of \$8,150 manipulating Trans-Industries stock in May and August of 2005 by, among other things, making the following material misrepresentations about Trans-Industries on multiple Yahoo message boards: (i) "TRNI to receive \$100 mill contract from Homeland Security – TRNI ABOUT TO RUN!!!!"; and (ii) "After London terror attacks, NYC subway system to be made safer and TRNI to supply parts to do so!!"
- (c) **Microwave Filter Inc.** ("Microwave"). The Defendants made a total of \$24,420 manipulating Microwave stock in April 2005 by, among other things, misrepresenting that Microwave had received a multimillion dollar contract from the Navy.
- (d) **M-Wav Inc.** ("M-Wav"). The Defendants made a total of \$22,043 manipulating M-Wav stock in January and May of 2005 by, among other things, misrepresenting that M-Wav had received \$80 million from Sirius and a contract from Direct TV.
- (e) **JB Oxford Holdings Inc.** ("JB Oxford"). The Defendants made a total of \$16,566 manipulating JB Oxford stock in June 2005 by, among other things, misrepresenting that Ameritrade was acquiring JB Oxford at that time.
- (f) **American Claims Evaluation Inc.** ("American Claims"). The Defendants made a total of \$16,422 manipulating American Claims stock in December 2005 by, among other things, misrepresenting that American Claims "expected to receive major multimillion \$\$\$ government contract

to provide disability management services to injured US and UN soldiers from Iraq.”

103. To date, the Defendants have generated a total profit of at least \$873,385 from their fraudulent scheme described herein.

**The Defendants’ Knowledge That Their Statements Were False**

104. The Defendants knew, or were reckless in not knowing, that the statements that they made in the messages described above in paragraphs 1-5 and 12-103 were false and misleading because, in addition to the facts described in those paragraphs:

(a) A reasonable factual basis for believing those statements to be true did not exist at the time that the Defendants made the statements. There were no references in the press or other publicly available sources to any of the purported events described in the messages, and upon information and belief, the Defendants did not have any access to the purportedly non-public information about the companies identified in the messages.

(b) The Defendants’ trading was contrary to what they were telling investors to do, belying any belief in the truth of their own statements. While aggressively encouraging others to buy these stocks based on predictions of a short-term price increase driven by some imminent event, the Defendants sold all their shares before the predicted price was reached and before the purported event at issue occurred or was publicly announced by the issuer.

**FIRST CLAIM FOR RELIEF**

Violations of Section 17(a) of the Securities Act,  
Section 10(b) of the Exchange Act and Rule 10b-5

105. The Commission repeats and realleges the allegations contained in paragraphs 1 through 104 by reference as if fully set forth herein.

106. The Defendants, directly or indirectly, singly or in concert, knowingly or recklessly, by use of the means or instruments of transportation or communication in, and the means or instrumentality of, interstate commerce, or by use of the mails, in the offer or sale, and in connection with the purchase or sale, of securities, 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 the light of the circumstances under which they were made, not misleading; and/or (c) engaged in acts, practices or courses of business which operated or would operate as a fraud or deceit upon the purchasers of the securities or other persons.

107. As part of and in furtherance of the fraudulent scheme and other violative conduct described above, the Defendants, directly or indirectly, singly or in concert, employed the manipulative and deceptive devices and contrivances and made the misrepresentations and omitted to state the facts alleged above in paragraphs 1-5 and 12-103.

108. The false and misleading statements and omissions made by the Defendants, more fully described above in paragraphs 1-5 and 12-103, were material.

109. The Defendants knew, or were reckless in not knowing, that these material misrepresentations and omissions, more fully described above in paragraphs 1-5 and 12-103, were false or misleading.

110. By reason of acts, omissions, practices, and courses of business alleged herein, the Defendants have violated, are violating, are about to violate, and, unless restrained and enjoined, will continue violating Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder.

**PRAYER FOR RELIEF**

**WHEREFORE**, Plaintiff Commission respectfully requests that this Court issue:

**I.**

Orders temporarily and preliminarily, and Final Judgments permanently, restraining and enjoining each of the Defendants, their agents, servants, employees, attorneys in-fact, and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from violating Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder.

**II.**

An Order directing that the Defendants' assets be frozen.

**III.**

An Order directing each of the Defendants to file with this Court and serve upon the Commission, within three business days, or within such extension of time as the Commission staff agrees in writing or as otherwise ordered by the Court, verified written accountings, signed by each of them under penalty of perjury.

**IV.**

An Order permitting expedited discovery.

**V.**

An Order enjoining and restraining each of the Defendants, and any person or entity acting at their direction or on their behalf, from destroying, altering, concealing, or otherwise interfering with the access of the Commission to relevant documents, books and records.

**VI.**

A Final Judgment requiring each of the Defendants to disgorge their ill-gotten gains from the violative conduct alleged herein, and to pay prejudgment interest thereon.

**VII.**

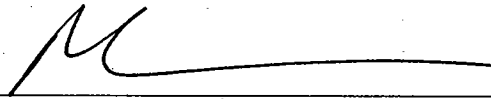
A Final Judgment imposing civil monetary penalties pursuant to Section 20(d) of the Securities Act and Section 21(d)(3) of the Exchange Act against each of the Defendants.

**VIII.**

Such other and further relief as the Court deems appropriate.

Dated: April 6, 2006  
New York, New York

Respectfully submitted,



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