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8 UNITED STATES DISTRICT COURT
9 FOR THE CENTRAL DISTRICT OF CALIFORNIA

10 June 2002 Grand Jury

11 UNITED STATES OF AMERICA,) CR No. 02-937(A)-NM
12)
12 Plaintiff,) F I R S T
13) S U P E R S E D I N G
13 v.) I N D I C T M E N T
14)
14 THOMAS S. HUGHES,) [15 U.S.C. §§ 78j(b), 78ff; 17
15) C.F.R. § 240.10b-5: Securities
15 Defendant.) Fraud; 18 U.S.C. § 1343: Wire
16) Fraud; 18 U.S.C. § 3147:
16) Committing Offense While on
17) Release; 18 U.S.C. § 401:
17) Criminal Contempt; 18 U.S.C. § 2:
18) Aiding and Abetting and Causing
18) an Act to be Done]
19)
19 _____

20 The Grand Jury charges:

21 COUNT ONE

22 [15 U.S.C. §§ 78j(b), 78ff; 17 C.F.R. § 240.10b-5; 18 U.S.C. § 2]
23 [Securities Fraud]

24 BACKGROUND

25 1. Beginning in or about June 1999 and continuing to the
26 present, defendant THOMAS S. HUGHES ("HUGHES") was an owner and
27 Chief Executive Officer, and otherwise had a role in running the
28 operations of eConnect, Inc. ("eConnect").

DKW:dkw

1 2. At all times relevant to this First Superseding
2 Indictment, eConnect's common stock was registered with the
3 Securities and Exchange Commission ("SEC") and was publicly
4 traded on the National Association of Securities Dealers
5 Automated Quotation ("NASDAQ") system. Shares of eConnect
6 constituted "securities" within the meaning of the federal
7 securities laws.

8 3. On March 23, 2000, the SEC filed in the United States
9 District Court for the Central District of California (the
10 "District Court") a Complaint For Permanent Injunction And Other
11 Relief in the case Securities and Exchange Commission v. eConnect
12 and Thomas S. Hughes, Civil Action No. 00-02959-MMM (Rcx) (the
13 "SEC case"), alleging that defendant HUGHES and others violated
14 federal securities laws in the issuance of press releases
15 concerning the business activities of eConnect.

16 4. Defendant HUGHES consented to the entry of a judgment
17 against him in the SEC case. Defendant HUGHES's Consent to Entry
18 of Judgment of Permanent Injunction and Other Relief was signed
19 by defendant HUGHES on April 3, 2000, and filed with the District
20 Court on April 6, 2000.

21 5. On April 7, 2000, a Judgment of Permanent Injunction
22 and Other Relief Against Defendant Thomas S. Hughes was entered
23 by the District Court in the SEC case (the "Permanent
24 Injunction"). Defendant HUGHES was personally served with the
25 Permanent Injunction.

26 6. Section II of the Permanent Injunction provides, in
27 part, that defendant HUGHES and his agents are permanently
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1 restrained and enjoined from "employing any device, scheme or
2 artifice to defraud"; "obtaining money or property by means of
3 any untrue statement of material fact or any omission to state a
4 material fact necessary in order to make the statements made, in
5 light of the circumstances under which they were made, not
6 misleading"; and "engaging in any transaction, practice, or
7 course of business which operates or would operate as a fraud or
8 deceit upon the purchaser" in connection with the purchase or
9 sale of the securities of any issuer.

10 7. During an SEC deposition of defendant HUGHES taken on
11 July 17, 2001, defendant HUGHES admitted that he had received the
12 Permanent Injunction and that he understood its terms.

13 THE FRAUDULENT SCHEME

14 8. Beginning on an unknown date, and continuing to at
15 least August 20, 2002, in the Central District of California and
16 elsewhere, defendant HUGHES knowingly and willfully and with the
17 intent to defraud, directly and indirectly, in connection with
18 the purchase and sale of eConnect stock, (1) employed a scheme to
19 defraud, (2) made untrue statements of material fact and omitted
20 to state material facts necessary in order to make the statements
21 made, in light of the circumstances under which they were made,
22 not misleading, and (3) engaged in acts, practices, and courses
23 of business that operated as a fraud and deceit, as described
24 below.

25 9. Defendant HUGHES carried out his scheme by issuing
26 false and misleading press releases via the internet concerning
27 purported business transactions entered into by eConnect, which
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1 in turn fraudulently inflated the value of eConnect shares which
2 traded on the open market.

3 10. In furtherance of this scheme, defendant HUGHES
4 participated in the creation of, and approved the issuance of, a
5 press release on or about July 10, 2002, claiming that
6 \$20,000,000 worth of Asset-Backed Bonds (the "Bonds") had been
7 transferred to eConnect for the purposes of developing Asian
8 markets. At the same time, at the direction of defendant HUGHES,
9 a statement regarding the Bonds and their purported transfer to
10 eConnect was posted on eConnect's website which stated that the
11 Bonds were "AA rated." Bonds such as the purported Asset-Backed
12 Bonds are typically rated by financial institutions in order to
13 provide potential investors with standardized information
14 concerning the potential risk associated with the Bonds. A
15 rating of "AA" would indicate to potential investors that the
16 Bonds are not associated with a high level of risk. In the
17 course of issuing that press release and causing the statements
18 regarding the Bonds to be made on eConnect's website:

19 a. On or about July 9, 2002, defendant HUGHES caused
20 the eConnect website to falsely claim that the Bonds were "AA
21 rated", when defendant HUGHES well knew that the Bonds were not
22 rated by any financial institution.

23 b. Defendant HUGHES failed to indicate in the press
24 release or on the eConnect website that the Bonds were not
25 registered with the SEC, when defendant HUGHES well knew that the
26 Bonds were not registered, and in fact the Bonds themselves
27 stated that they were unregistered.

1 c. Defendant HUGHES failed to indicate in the press
2 release that the SEC had specifically rejected the registration
3 application for the Bonds, when defendant HUGHES well knew that
4 the registration for the Bonds had been rejected by the SEC.

5 d. Defendant HUGHES failed to indicate in the press
6 release regarding the Bonds that defendant HUGHES was restricted
7 from entering into any contract agreements for an amount or value
8 greater than \$250,000 without prior review and approval of
9 eConnect's Board of Directors, that no such review or approval
10 had been obtained, and therefore that defendant HUGHES did not
11 have lawful authority to enter into such a contract on behalf of
12 eConnect.

13 11. From on or about July 9, 2002 through at least July 10,
14 2002, in furtherance of the fraudulent scheme described above, in
15 the Central District of California and elsewhere, defendant
16 HUGHES used the means and instrumentalities of interstate
17 commerce in connection with the purchase and sale of eConnect
18 stock in that he caused the issuance of a false and misleading
19 press release and a false and misleading website posting
20 regarding the Bonds.

COUNT TWO

[15 U.S.C. §§ 78j(b), 78ff; 17 C.F.R. § 240.10b-5; 18 U.S.C. § 2]
[Securities Fraud]

12. The Grand Jury repeats and realleges paragraphs 1 through 10 of this First Superseding Indictment as if fully set forth herein.

13. On or about July 12, 2002, defendant HUGHES participated in the creation of, and approved the issuance of, a press release claiming that eConnect had begun a "stock repurchase program" due to its "strong financial position." At the same time, at the direction of defendant HUGHES, a statement claiming that eConnect had begun a "stock repurchase program" due to its "strong financial position" was posted on eConnect's website. In the course of issuing that press release and causing the statements regarding the stock repurchase program to be made on eConnect's website, defendant HUGHES engaged in the following deceptive acts, practices, and devices:

a. Defendant HUGHES caused public statements to be made that a "stock repurchase program" had begun as of July 12, 2002 when in fact, as defendant HUGHES well knew, (1) there was no such stock repurchase program in place, and (2) eConnect's Board of Directors had neither voted upon nor approved a stock repurchase plan.

b. Defendant HUGHES caused public statements to be made that eConnect was in a "strong financial position" as of July 12, 2002 when in fact, as defendant HUGHES well knew, eConnect was not in a strong financial position in that, among

1 other things, eConnect had been unable to pay the salaries of its
2 employees for some time.

3 14. On or about July 12, 2002, in furtherance of the
4 fraudulent scheme described above, in the Central District of
5 California and elsewhere, defendant HUGHES used the means and
6 instrumentalities of interstate commerce in connection with the
7 purchase and sale of eConnect stock in that he caused the
8 issuance of a false and misleading press release and a false and
9 misleading website posting regarding the purported stock
10 repurchase program.
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COUNT THREE

[15 U.S.C. §§ 78j(b), 78ff; 17 C.F.R. § 240.10b-5; 18 U.S.C. § 2]
[Securities Fraud]

15. The Grand Jury repeats and realleges paragraphs 1 through 10 and 13 of this First Superseding Indictment as if fully set forth herein.

16. On or about July 19, 2002, defendant HUGHES participated in the creation of, and approved the issuance of, a press release claiming that eConnect had received a \$964,000 purchase order from a company called Vick Wholesale Equipment Lease for eConnect's principal product. In connection with the issuance of that press release, defendant HUGHES intentionally included a link in the press release to the website of a company called "vickwholesale.com," a legitimate company that had nothing to do with Vick Wholesale Equipment Lease. At the time defendant HUGHES included that information, defendant HUGHES knew that the legitimate company did not have any relationship to defendant HUGHES, eConnect or Vick Wholesale Equipment Lease, and included the website link for the purposes of misleading the public regarding the viability of the purported purchase order from Vick Wholesale Equipment Lease.

17. On or about July 19, 2002, in the Central District of California, in furtherance of the fraudulent scheme described above, in the Central District of California and elsewhere, defendant HUGHES used the means and instrumentalities of interstate commerce in connection with the purchase and sale of eConnect stock in that he caused the issuance of a false and

misleading press release regarding the purported purchase order
from Vick Wholesale Equipment Lease.

COUNTS FOUR THROUGH SEVEN

[18 U.S.C. §§ 1343, 3147, 2]

[Wire Fraud; Committing an Offense While on Release]

18. The Grand Jury repeats and realleges paragraphs 1 through 10, 13, and 16 of this First Superseding Indictment as if fully set forth herein.

19. Beginning on an unknown date and continuing to at least August 20, 2002, in Los Angeles County, within the Central District of California, and elsewhere, defendant HUGHES, with the intent to defraud, knowingly devised participated in, and executed a scheme to defraud as to a material matter, and to obtain money or property by means of materially false and fraudulent pretenses, representations, and promises, and the concealment of material facts, by causing the issuance of false and misleading press releases and other information to the general public concerning the purported business activities of eConnect.

20. On or about the dates set forth below, in the Central District of California and elsewhere, defendant HUGHES, for the purpose of executing and attempting to execute the above described scheme to defraud, transmitted, and caused to be transmitted, the following writings, signs, signals and sounds by means of wire communications in interstate commerce:

| <u>COUNT</u> | <u>DATE</u> | <u>WIRE COMMUNICATION</u> |
|--------------|-------------|--|
| FOUR | 7/9/02 | E-mail transmission approving the false and misleading eConnect press release regarding the Pacific Nakon Bond issue from defendant HUGHES in Los Angeles, California, to XPress Press News Service in Hollywood, Florida. |

| <u>COUNT</u> | <u>DATE</u> | <u>WIRE COMMUNICATION</u> |
|--------------|-------------|--|
| FIVE | 7/11/02 | E-mail transmission approving the false and misleading eConnect press release regarding the eConnect stock repurchase program from defendant HUGHES in Los Angeles, California, to XPress Press News Service in Hollywood, Florida. |
| SIX | 7/19/02 | E-mail transmission of the false and misleading eConnect press release regarding the purchase order from Vick Wholesale Equipment Lease from defendant HUGHES in Los Angeles, California, to XPress Press News Service in Hollywood, Florida. |
| SEVEN | 8/20/02 | Telephone call from defendant HUGHES in Los Angeles, California, to Emanuel Vavolizza in New York, New York, informing Vavolizza, the public affairs officer for eConnect, that the Bonds were in fact registered by the SEC, for the purpose of disseminating that false information to the general public. |

21. It is further alleged that at the time of the offense described in Count Seven above, defendant HUGHES was released under Title 18, United States Code, Chapter 207, in the criminal case of United States v. Thomas S. Hughes, Case No. CR 02-1648-M.

COUNT EIGHT

[18 U.S.C. § 401]

[Criminal Contempt]

22. The Grand Jury repeats and realleges paragraphs 1 through 10, 13, and 16 of this First Superseding Indictment as if fully set forth herein.

23. Beginning on an unknown date, and continuing to at least August 20, 2002, in the Central District of California, and elsewhere, defendant HUGHES, knowingly and willingly disobeyed and resisted a lawful order, decree, and command of the District Court, namely the Permanent Injunction, in contempt of the District Court's authority, by employing a device, scheme and artifice to defraud, by obtaining money or property by means of an untrue statement of material fact and an omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not

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1 misleading, and by engaging in a transaction, practice and course
2 of business which operated as a fraud and deceit on the
3 purchaser, in connection with the purchase and sale of eConnect
4 stock.

6 A TRUE BILL

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9 Foreperson

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11 DEBRA W. YANG
12 United States Attorney

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14 JACQUELINE CHOOLJIAN
15 Assistant United States Attorney
Acting Chief, Criminal Division

16
17 GREGORY J. WEINGART
18 Assistant United States Attorney
Chief, Major Frauds Section