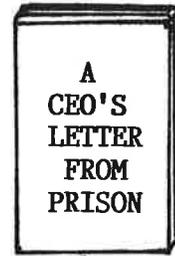


## A CEO'S LETTER FROM PRISON

Discover How a Corporate CEO Was Convicted of Securities Fraud and How His Letter From Prison Can Help Others Avoid The Same Fate

### THE SUMMARY IN BRIEF

Larry Stockett was the CEO of Hightec, Inc., a publicly traded holding company. In 1999 and 2000 his company ran ads in the Wall Street Journal to raise \$25 million to finance the import of cement from Asia for one of its subsidiaries, U.S. Cement Company. Over the course of two years, three separate companies contracted to provide the requested financing, but none of them ever fulfilled their agreements. In the process, Stockett had personally guaranteed the loan requests and provided more than 50% of the company's stock which he personally owned as collateral for the aborted attempts. After each failed effort, Stockett found himself with fewer shares of stock, more out of pocket expenses, and a much lower value of his personally owned shares. Eventually Stockett and the company was sued by the Securities and Exchange Commission (SEC). They accused him of securities fraud and loan fraud for \$700,000 in personal loans that he had taken using his own personally owned stock as collateral. He was arrested and held in jail for two years before his trial, and then offered a plea bargain that would allow him to be released for time served if he would plead guilty to the charges and pay a \$500,000 restitution for the personal loan. He refused the offer and maintained his innocence. Having lost more than \$20 million in the value of his stocks during his incarceration, he was unable to continue paying his private attorneys and was assigned a public defender who only met with him three times before his trial. Needless to say, he was convicted of securities fraud and wire fraud and sentenced to 12 years in prison - four times the amount he would have served if he had not exercised his right to a fair trial. He claims he never received a fair trial and that the jury never saw any of his evidence or witnesses that could prove his innocence. The public defender refused to put on any defense, and was not prepared to cross examine any of the government witnesses. Stockett has lost all of his appeals, primarily because his public defender never submitted any of his evidence to the court, and with no evidence on the record, no appeal could cite any of the facts in his case. The government claimed there was no evidence of any legitimate business for over three years that Stockett and his seven employees and



by  
Larry Stockett

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consultants met with hundreds of potential cement customers, suppliers, transportation companies, financing sources, escrow companies, acquisition targets, and others that were met with during the course of the development of the company's business plans. Hightec had other operating subsidiaries including the IPO Network that produced a radio and television show, and held seminars around the country. These other subsidiaries took much of Stockett's time, however, the government completely ignored them before, during and after the trial. The jury never even heard that they existed. They assumed the entire company was a scam just because one start-up subsidiary never received adequate financing.

Stockett's Letter From Prison is not about his guilt or innocence. It is about the lessons learned from serving as an officer and director of seven public companies. It is about the things that every officer and director of any public company should take away from his experience.

IN THIS SUMMARY, YOU WILL LEARN:

- \* Never trust the SEC to conduct a fair investigation
- \* Never respond to a subpoena that is too broadly worded
- \* You can be tried both civilly and criminally for the same offense of securities fraud - Double jeopardy does not apply
- \* You may be convicted of securities fraud for press releases issued by third parties that reference agreements with your company
- \* The SEC will issue complaints that list every complaint on an Internet blog regardless of how ridiculous they are - without any investigation of the facts or contacting any reliable witnesses
- \* You can be put out of business by the SEC's press release and their investigation of your company, even if they never present any evidence in a court of law
- \* A defendant is not entitled to call witnesses or put on any defense if a public defender refuses to put on a defense.
- \* You are not entitled to defend yourself or represent yourself even if you file motions and cite all the appropriate case law
- \* The criminal justice system is overburdened, completely flawed, and unable to provide any defendant an adequate defense counsel for financial, competency, and systematic reasons that force defendants to accept plea bargains even when they are <sup>not</sup> guilty or face much more severe sentences if they choose to exercise their constitutional rights. There is no such thing as a fair trial if you cannot afford a private attorney and a multi-million defense associated with defending the ambiguous interpretation of securities laws that are intended to allow any public officer or director to be convicted if the government chooses to selectively prosecute them for the same facts that apply to virtually every officer and director that conducts any business whatsoever relating to securities.

**THE COMPLETE SUMMARY: A CEO'S LETTER FROM PRISON**  
**BY Larry Stockett**

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**The author:** Larry Stockett was a highly successful business executive with over 40 years experience in the high technology industry. He has served as an officer and director of seven public companies and completed over 24 mergers and acquisitions. He was the Vice President of Business Development for SAIC, Director of Special Projects for IBM Realcom, and founder of the world's first Paperless Office at the Watergate. It was written about in Alvin Toffler's best seller, "The Third Wave." Stockett's company was cited as the leading example of the office of the future. After Allen and Company invested in his PC Telemart ten leading underwriters made Stockett a multimillionaire when they conducted its IPO in 1986. Stockett had previously founded the National Software Library, and published the PC Clearinghouse, Apple, and Radio Shack software directories. He was also the inventor and U.S. patent holder for the plasma display with optical touch panel and rear screen projection overlay onto a plasma display issued in 1976. Over 200 articles have been written about Mr. Stockett in magazines such as Newsweek, Business Week, U.S. News and World Reports, as well as the Wall Street Journal, The Washington Post, and wire service articles appearing in nationwide newspapers. One of his companies, Fibernet Communications was cited by Charles Schwab in the Wall Street Journal for his making the first coast-to-coast call on a fiber optics network. With this distinguished career, Stockett's venture capital company, The OTC Emerging Growth Fund had funded Hightec, Inc., and a series of acquisitions including U.S. Cement Company. Stockett is now serving a 12-year sentence in the Taft Federal Prison Camp, in Taft, California.

### **Stockett's Letter From Prison**

After serving six years in prison for a crime that Stockett continues to deny was a scam, he decided to write a letter and try to get it sent to every officer and director of every public company on the NYSE, AMEX, and NASDAQ stock exchanges. He estimates that there are 16,000 publicly traded companies and that they have an average of ten officers and directors each. In order to send 160,000 letters informing every officer and director of every public company of the important lessons that he has learned that are directly applicable to each and every one of them, he has decided to solicit the assistance of an outside company that is highly regarded for their Executive Book Summaries. He believes that they offer a valuable service to busy executives who do not have time to read hundreds of books published each year by experienced executives and authors who are experts on their field of business. For this reason, they publish one page "speed summaries" and 5-10 page "Featured Summaries" of business books that they consider worthy of bringing to the attention of busy executives. Stockett prepared a letter from prison and submitted it to Soundview Executive Book Summaries and authorized them to release it for the benefit of every officer and director of every public company. In order to assure every busy executive that they would not be wasting their time or money by reading his letter from prison, he agreed to make his entire autobiography free to anyone who signs up for a free trial of their service.

Stockett's Letter From Prison is not about Stockett's guilt or innocence. It is about the process used by the SEC and the criminal justice system to prosecute alleged violaters of securities law. The process is neither fair or just. It is not speedy, and it is severely in need of regulatory reform.

The SEC can selectively prosecute and persecute any individual, any company and can virtually destroy the lives and reputations of the companies they purport to regulate by their own incompetence, overzealous attitude, and approach to seeking out high visibility targets and winning cases against them at any price, using any tactics, in order to scare the rest of the industry into compliance. The impossibility of a few hundred SEC attorneys monitoring and prosecuting tens of thousands of companies that file tens of millions of documents annually and conduct billions of transactions annually with the enforcement and compliance departments antiquated technology and computer resources is a miscarriage of justice. In Stockett's case, the SEC claimed that his business was a scam, but they never even interviewed any employees, none of its consultants, none of its customers, none of its suppliers, and never even presented the 600 documents provided in the civil depositions to the U.S. Attorney who prosecuted the criminal case. He never provided any of the evidence of Stockett's innocence to any of the government agencies that subsequently testified that there was no evidence of any legitimate business. How could they testify to anything else since they never did any investigation of the business in the first place.

At Stockett's sentencing, the SEC provided Blue Sheet Data provided by the brokerage firms that showed all the transactions in Hightec stock during the period of the alleged fraud. This data clearly proved that Stockett only sold 175,000 shares of his entire 25.5 million shares over the two year period that they claimed he committed a pump and dump scheme. It also showed that InterOil Gulf sold millions of shares with no evidence of any cost on their part, and clearly proved Stockett was the victim and not the perpetrator of the pump and dump scheme. The SEC, NASD, and IRS witnesses never even mentioned that they were aware of who sold how many shares of stock, and who was the likely perpetrator of the securities fraud. They simply assumed Stockett was guilty because he was the party on trial. Stockett's public defender didn't point out the obvious proof of someone else's fraud because he had never reviewed Stockett's hundreds of pages of defense analysis of the Blue Sheet Data, or the charts and graphs that Stockett had prepared for his defense. The system basically denied Stockett any ability to present his side of the story because the public defender system is set up to force 97 percent of all defendants to accept plea bargains in order to save the cost of trials and expensive defense efforts. The 3% that do go to trial represented by public defenders, lose more than 90% of their cases. Stockett was denied the right to fire his second attorney and the right to represent himself because the judge did not want the expense, the time required to listen to Stockett's defense, or the burden on the criminal justice system to conduct a lengthy trial. Stockett's appeal denied the right to self-representation even though Stockett had won previous cases brought by the SEC on two separate occasions.

Stockett believes that no officer or director of any public company should have to be put through the process that he was put through and that before they file one single press release, quarterly report, annual report, proxy statement, or issue any statement on any company web site, that they read the Ten Things Every Officer and Director Should Take Away From his Letter From Prison. The Letter From Prison will only take you ten minutes to read in its full "Featured Summary" format. It could save you 12 years in prison and open your eyes to the immediate steps you should take if the SEC ever investigates you or your company.

## **How Stockett's Case is Relevant to Every Public Company**

The SEC claim that Hightec was conducting a scam because its U.S. Cement Company subsidiary had not conducted any legitimate business may not seem relevant to most public companies. But Hightec, Inc. was very much like most public companies. It had many businesses and many employees of other businesses that were not involved in any way with U.S. Cement Company. Its IPO Network subsidiary was the leading provider of information on companies that had conducted initial public offerings. Its web site contained a data base of over 9,500 IPOs and links to all major underwriters, and financial services that report on IPOs. Hightec's Sinclair Group published weekly magazines that covered 12,000 U.S. stocks, 3,000 Canadian stocks, and 1,000 London stocks with weekly circulation of over 175,000 copies. Its Karate International subsidiary operated 26 karate studios and reported revenue of over \$4 million and earnings of over \$1 million in 1997. These businesses were acquired with Hightec stock, and they all demanded their stocks returned when the Hightec stock collapsed after the SEC and the FBI raided Stockett's house in 2001 and issued a press release that they were investigating an alleged "boiler room" operating out of his house. The boiler room turned out to be a "Street of Dreams" showcase with one personal computer, one phone line, and one fax line, and an \$800,000 home that obviously did not run any type of "boiler room" operation. Oops. Stockett's business and his credibility was destroyed by their "press release" which had no basis in fact and used a false affidavit from an FBI agent to get a search warrant in the first place. An undercover "FBI Agent" toured Stockett's home and took photos without his knowledge which he presented at the trial to show the oppulent living conditions. They never mentioned that the search warrant never showed any "boiler room" or any reason for the probable cause necessary to obtain a search warrant in the first place. They also never mentioned that the FBI provided all the information collected from Stockett's personal computer to the SEC for their civil depositions conducted several months later. The SEC did not follow any rules of civil discovery to obtain any of the information gathered in their "task force" which raided Stockett's house. What was the purpose of subpoenas and depositions if the SEC can simply ask the FBI to conduct a joint raid on an individuals home with no evidence whatsoever that any fraud has even been committed. The government never presented any evidence at trial. They claimed there was no evidence because the business was a scam and no evidence existed of any legitimate business. Just because they didn't provide the 600 documents that were used in the civil depositions to the FBI doesn't mean that no legitimate business existed. If this is the type of criminal justice system that is used to prosecute any civil or criminal case of securities fraud, God help America. The incompetence, the arrogance and the clear violation of Stockett's civil and legal rights are far more serious than the most serious offense they have accused and convicted Stockett for. He was convicted because he failed to implement his business plan and it was determined to be a scam because the government never spoke to anyone who could testify to the legitimate business efforts that were conducted by seven people for over three years relating specifically to the cement business plan. Any company that has any start up project which does not have any revenue stream can be accused of running a scam if you aren't successful in getting your budget approved or in financing the inventory that you have purchase orders for. The fact that this could happen to someone with the lengthy track record of successful inventions and start up businesses such as Stockett, means it could happen to anyone.

## **How Press Releases and Internet Posts Can Land You in Prison**

Every public company issues press releases from time to time. Every public company's stock goes up and down before and after every press release. The SEC claims this is a pump and dump scheme. They claim it is an illegal pump and dump scheme if the press release is false, misleading, or omits material facts. They define material facts after the fact, and they can prosecute you for any press release. They did not even have to prove the press release was false in the case of Hightec. They did not even have to prove that Stockett wrote it or issued it. The fact that it used the names of InterOil Gulf executives for the contact and that it was released in London before it was reissued in the U.S. exactly as it had been released by InterOil Gulf, was immaterial. It was proof that the company conducted a pump and dump scheme, even though there was no evidence that the SEC even investigated or called the company or the name listed to contact for further information.

Stockett was convicted of securities fraud for a press release issued by InterOil Gulf claiming they were going to provide the financing for his company. He was quoted in the release, but he was not responsible for the release. He had no control over their actually providing the financing that they contractually obligated themselves to provide. They sold eight million shares of Hightec stock that was provided to them as collateral for a loan and they never provided the loan, the cement, or the return of the shares they had sold. They were never questioned, never indicted, and made millions of dollars by scamming Stockett and he is serving 12 years for their failure to perform and their breach of contract. As unlikely as this sounds, it is true. The trial transcripts confirm that the government never contacted InterOil Gulf and had no jurisdiction because they were located out of the country. The fact that they had stock accounts at Platinum Trading in New York and sold the eight million shares of Hightec stock through this account was a fact that the incompetent public defender failed to bring up on cross-examination even though Stockett was urging him to ask the questions of the SEC. He simply was not prepared to ask any questions because he had never reviewed the analysis provided by Stockett. This is a direct result of using a public defender who does not have the time, interest, or financial incentive to provide effective assistance of counsel. An ineffective counsel is worse than no counsel at all, but Stockett was denied that alternative as well.

## **What To Do If The SEC Investigates You**

- \* Do not leave the country even for a vacation or short business trip. The SEC will claim you are fleeing the country no matter what the reason and no matter how ridiculous their claim may seem. If they have requested the U.S. Attorney file a criminal complaint, there could be a sealed indictment that you and your attorney may be totally unaware of. You could be arrested and held in jail like Stockett was for over a year. You lose all your rights to a speedy trial and your attorney may not even appear in a U.S. Court on your behalf until you are within the jurisdiction of the U.S. courts.
- \* Don't respond. Claim your Fifth Amendment rights and do not provide any information to the SEC. Make them conduct their investigation without your assistance. They have no authority to take any enforcement action against you for you refusing to provide information. They are not looking to determine your guilt or innocence. They assume you are guilty and they are looking for anything they can use

against you. The less work they have to do, the better they like it, and the more likelihood that they will file a formal complaint or request a criminal action against you by using your own documents as justification. They don't want to take third party evidence because that just means more conflicting stories and more work for them. They are lazy, incompetent, completely biased, and determined to make everyone they target accept some sort of consent decree. It is all about "getting their man." They keep score by how many people they bring down, now how often they deliver justice.

\* Hire a criminal attorney first, and don't waste your money on a civil attorney until you are absolutely certain that you are not being investigated for securities fraud by a joint task force. If the SEC is sharing their investigation with the U.S. Attorney or State Attorney Generals, then you don't have to share any information with them. They can raid your office any time they want and take any evidence they want, with or without your cooperation.

\* Make sure your company has a written document retention policy for all documents, e-mails, web site content, public disclosure reports, working papers, notes, calendars, schedules, press releases, and other documents that are directly related to any projects that might expose you to an eventual claim of securities fraud. There is not a public company in existence that could not be convicted of securities fraud if the SEC chooses to compare all the documents in their possession to all of the publicly disclosed reports that they require. They will always be able to find some report that differs from the disclosure report, and they can claim that you failed to disclose material information, or you made a statement that was misleading and you knew or should have known from other documents contained in your own files. This may seem like an overreaching statement, but after experience the overreaching practices of the SEC first hand on several different cases, Stockett is appalled by their practices.

\* Do not under any circumstance say to yourself, I am innocent. I have nothing to hide and nothing to fear. If I provide them with the information they have requested we can clear up any misunderstanding and resolve the matter before it escalates. If you take this attitude, you will end up being pressured into signing a consent decree or you will eventually end up at a civil or criminal trial. You are feeding meat to a hungry lion. He will eat the meat and eventually he will bite you too. Twelve years in prison is an incredibly high price to pay for being naive when it comes to dealing with the SEC and the criminal justice system.

#### **Ten Things Every Officer and Director Should Take Away From Stockett's Letter**

- 1. Never Trust the SEC to Conduct a Fair Investigation**
- 2. Never respond to a subpoena that is too broadly worded**
- 3. Securities fraud is easy to prosecute and difficult to defend**
- 4. The government plays to win and they will not rest until you lose**
- 5. There is no shame in refusing to cooperate**
- 6. There is a greater risk if you cooperate than if you force them to prove their case without your cooperation**
- 7. If you are indicted criminally, never use a public defender**
- 8. If you cannot afford an attorney, represent yourself. Refuse to accept any court appointed attorney. They will never work as hard as you will.**
- 9. Read about high profile cases like Michael Milken, Frank Quattrone, Jeffrey Skilling, and Larry Stockett. The SEC and prosecutors practices will shock you and cure your naivety forever.**
- 10. Read Soundview Executive Business summaries. You can save 99% of the time required to read a book and learn the key points in ten minutes.**