

JUDGE BUCHWALD

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

PRECIOUS STONES TRADING WORLDWIDE, INC.,
RUSLAN RAPOPORT, EDWARD LANDENBAUM,
and IGOR LANDENBAUM,

Defendants,

00 Civ. ____ ()

COMPLAINT AND
JURY DEMAND

RECEIVED
U.S.D.C. S.D.N.Y.
AUG 1 8 2000

Plaintiff Securities and Exchange Commission ("Commission"), for its Complaint against
Defendants Precious Stones Trading Worldwide, Inc. ("Precious Stones"), Ruslan Rapoport,
Edward Landenbaum ("E. Landenbaum"), and Igor Landenbaum ("I. Landenbaum")
(collectively, the "Defendants"), alleges as follows:

NATURE OF THE ACTION

1. From October 1997 to April 2000 (the "Relevant Period"), Defendants conducted a fraudulent private placement offering of stock purportedly issued by Precious Stones. The Defendants duped at least 208 investors into paying approximately \$5.5 million for unregistered common stock of Precious Stones, luring investors with written misrepresentations contained in offering memoranda and oral misrepresentations, such as (1) baseless price predictions; (2)

misrepresentations that Precious Stones would commence an initial public offering ("IPO") in the near future; (3) misrepresentations concerning the business in which Precious Stones is involved; and (4) misrepresentations concerning how the proceeds raised from the offering would be used. In fact, Precious Stones, which was held out by the Defendants as engaged in the business of buying and selling rare art, coins, and gemstones from Eastern Europe, Russia and South America, took no substantial steps toward commencing an IPO, was not engaged in any business except defrauding investors, and did not use any of the \$5.5 million raised in the offering for its rare art, coin and gemstone business. Rather, Rapoport, E. Landenbaum, and I. Landenbaum used the proceeds of the offering to pay themselves and to fund their personal expenses, including vacations to Atlantic City, Las Vegas, and the Bahamas, and payment of Rapoport's credit card and cellular phone bills.

2. Although the offering memoranda for the Precious Stones offering contained representations that the Precious Stones stock could lawfully be sold without being registered in reliance on various exemptions from the registration requirements of Section 5 of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. § 77e, in fact, the Precious Stones offering did not qualify for any exemption from registration.

VIOLATIONS

3. Precious Stones, Rapoport, E. Landenbaum, and I. Landenbaum, directly or indirectly, singly or in concert, have engaged, and, unless enjoined and restrained, will again engage, in transactions, acts, practices, and courses of business that constitute violations of Sections 5(a), 5(c), and 17(a) of the Securities Act, 15 U.S.C. §§ 77e(a), 77e(c), 77q(a), and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. § 78j(b), and

Rule 10b-5, 17 C.F.R. § 240.10b-5, the registration and antifraud provisions of the federal securities laws.

4. Rapoport, E. Landenbaum and I. Landenbaum, directly or indirectly, singly or in concert, have engaged, and, unless enjoined and restrained, will again engage, in transactions, acts, practices, and courses of business that constitute violations of Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a), the broker registration provision of the federal securities laws.

JURISDICTION AND VENUE

5. The Commission brings this action pursuant to the authority conferred upon it 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), to obtain a final judgment that: (a) permanently enjoins Precious Stones, Rapoport, E. Landenbaum, and I. Landenbaum from violating the registration and antifraud provisions of the federal securities laws; (b) permanently enjoins Rapoport, E. Landenbaum and I. Landenbaum from violating the broker registration provisions of the federal securities laws; and (c) directs each Defendant to disgorge each's ill-gotten gains and to pay prejudgment interest thereon. The Commission also brings this action pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3), to obtain a final judgment imposing civil penalties against each of the Defendants.

6. This Court has jurisdiction over this action pursuant to Sections 20(d) and 22(a) of the Securities Act, 15 U.S.C. §§ 77t(d), 77v(a), and Sections 21(d) and 27 of the Exchange Act, 15 U.S.C. §§ 77u(d), 78aa.

7. The Defendants, directly and indirectly, have made use of the means or instruments of transportation or communication in, and the means or instrumentalities of,

interstate commerce, or of the mails, in connection with the transactions, acts, practices, and courses of business alleged herein. Certain of the transactions, acts, practices and courses of business have occurred within the Southern District of New York, including the offer and sale of Precious Stones securities from Precious Stones' offices in New York, New York.

THE DEFENDANTS

8. Precious Stones is a Delaware corporation that was incorporated in October 1997. Precious Stones' principal place of business is 225 Broadway, Suite 1905, New York, New York. According to offering memoranda, Precious Stones was purportedly organized "to take advantage of the growing opportunities involved in the wholesale diamond/gemstone, custom design jewelry, works of art, antiques, and collectibles markets on a worldwide basis." According to the Delaware Division of Corporations, Precious Stones has not paid taxes in Delaware since 1997 and, consequently, its status as a corporation is considered void.

9. Rapoport, age 26, lives in New York, New York. Rapoport is the promoter, beneficial owner, president, director, and executive officer of Precious Stones. On or about October 29, 1997, Rapoport opened an account in Precious Stones' name at Republic National Bank ("Republic"), now HSBC Bank USA. In or about May 1998, Rapoport opened another account in Precious Stones' name at Citibank, N.A. Rapoport was the sole signatory of the Republic and Citibank accounts. Rapoport, directly or indirectly, deposited all investor funds in Precious Stones' bank accounts at Republic and Citibank.

10. E. Landenbaum, age 28, lives in Brooklyn, New York.

11. I. Landenbaum, a/k/a Michael Landenbaum, age 38, lives in Brooklyn, New York and is E. Landenbaum's brother. Since March 1999, I. Landenbaum has been a registered representative of Clearing Services of America, Inc., a registered broker-dealer.

OTHER RELEVANT PERSON AND ENTITIES

12. John S. Conway, Jr., age 50, lives in Brooklyn, New York. While Conway did not speak with investors, Precious Stones paid Conway \$150 per week to allow Rapoport, E. Landenbaum and I. Landenbaum to use his name as an alias when soliciting investors to invest in the Precious Stones offering. The Defendants represented to investors that Conway was the "Underwriter Director" and "Secretary of Treasurer [sic]" for Precious Stones. At the direction of Rapoport, E. Landenbaum, and I. Landenbaum, Conway opened bank accounts in his name at Chase Manhattan Bank and Fleet Bank. As investor funds were deposited into Precious Stones' bank accounts, the Defendants wired approximately \$826,000 out of Precious Stones' accounts to Conway's accounts. Conway withdrew all of the funds on a weekly basis and gave the cash to the Defendants.

13. ADF, Incorporated Limited ("ADF") is a Gibraltar company that is beneficially owned by the Landenbaums, who hold themselves out as directors of the company. Since September 1999, ADF has maintained four bank accounts at Jyske Bank in Gibraltar ("Jyske"). ADF received more than \$2.3 million in wire transfers from Precious Stones' bank accounts in the United States.

14. Antique Art and Jewelry Trading Limited ("Antique Art") is a Gibraltar company that is beneficially owned by Rapoport, who holds himself out as a director of the company. Since September 1999, Antique Art has maintained a bank account and a securities portfolio at

Jyske. Antique Art received more than \$263,000 in wire transfers from Precious Stones' bank accounts in the United States.

**DEFENDANTS' FRAUDULENT OFFER AND SALE
OF PRECIOUS STONES SECURITIES**

15. During the Relevant Period, Rapoport, E. Landenbaum and I. Landenbaum, through Precious Stones, conducted a fraudulent private placement offering of stock issued by Precious Stones pursuant to an offering purportedly exempt from registration under Rules 505 and 506 of Regulation D of the Securities Act, 17 C.F.R. §§ 230.505, 230.506. Precious Stones was offering to sell a minimum of 100 units and a maximum of 2,000 units, with each unit consisting of 1,000 shares of common stock priced at \$1.00 per share and 1,000 common stock purchase warrants. The common stock purchase warrants entitled each investor to purchase one share of common stock at \$0.10.

16. To find investors to invest in the Precious Stones offering, the Defendants employed cold-callers to assist them in calling prospective investors and soliciting customers with whom they had previously established relationships while working at registered broker-dealers. Moreover, the Defendants maintained a website, www.preciousstonestrading.com, that advertised the Precious Stones offering. While the website did not contain detailed information about the nature of Precious Stones' business or the offering, it did contain a hyperlink entitled "Private Placement Offering Memorandum," which led to boilerplate disclosure language and an electronic "contact form" that was apparently used to collect information from prospective investors who were interested in receiving a prospectus.

17. When investors agreed to invest in the Precious Stones Offering, Rapoport, E. Landenbaum and I. Landenbaum orally instructed investors to make their checks payable, or to

wire their money, to purported escrow accounts at either Republic and Citibank under Precious Stones' name. The purpose of this instruction was to lead investors to believe that their investments were being deposited into escrow accounts for the benefit of Precious Stones when, in fact, investor funds were being deposited into regular checking accounts controlled by Rapoport.

18. Once investors sent their money to the Precious Stones bank accounts, Rapoport, E. Landenbaum and I. Landenbaum, directly or indirectly, sent investors Precious Stones stock certificates.

Oral Misrepresentations Made to Investors in the Precious Stones Offering

19. When soliciting investors over the telephone to purchase stock in the Precious Stones offering, Rapoport, E. Landenbaum and I. Landenbaum represented to investors, among other things, that: (a) Precious Stones was planning an IPO of its stock in late 1999 or early 2000; (b) the IPO price would be as much as \$28 per share; and (c) the Precious Stones stock could reach as high as \$70 per share in the aftermarket.

20. The statements to investors contained in Paragraph 19 were materially false and misleading because: (a) there was no reasonable basis in fact for the representations that Precious Stones would be able to conduct an IPO of its stock; (b) there was no reasonable basis in fact for the representation that Precious Stones stock would be \$28 per share in the mythical IPO; and (c) there was no reasonable basis in fact for the representation that Precious Stones stock would reach as high as \$70 per share in the hypothetical aftermarket.

21. Precious Stones, Rapoport, E. Landenbaum and I. Landenbaum knew, or were reckless in not knowing, that the representations set forth in Paragraph 19 were false and misleading.

Misrepresentations Contained in Offering Memoranda and Form D Filings

22. On three separate occasions, Rapoport filed a Form D with the Commission (collectively, the "Form D Filings"). The Form D filings contained misrepresentations about the use, and amount, of proceeds raised from the Precious Stones offering, including, but not limited to, the following:

- a) \$200,000, or 10%, of the offering proceeds would be paid in sales commissions and \$5,000 would be paid in filings fees;
- b) \$350,000, or 17.5%, of the offering proceeds was earmarked for working capital;
- c) \$1,199,000, or approximately 60%, of the offering proceeds was earmarked for the "purchase of inventory;" and
- d) only \$190,000 had been raised as of January 11, 1999 and only \$360,000 had been raised as of January 19, 2000.

23. The statements to investors contained in Paragraph 22 were materially false and misleading because: (a) more than \$2.3 million, or more than 41% of the actual money raised in the offering, had been paid to the Landenbaums, through ADF; (b) approximately \$1.2 million, or more than 21% of the money actually raised in the offering, went directly to Rapoport; (c) more than \$260,000 of the proceeds actually raised in the offering had been paid to Rapoport, through Antique Art; (d) approximately \$826,000 of the proceeds actually raised in the offering

went to bank accounts opened by Conway on behalf of the Defendants; (e) on information and belief, none of the proceeds from the offering were used by Precious Stones as working capital or for the purchase of inventory; and (f) as of January 11, 1999 and January 19, 2000, approximately \$860,000 and \$4.4 million, respectively, had been raised in the Precious Stones offering.

24. Rapoport knew, or was reckless in not knowing, that the Form D Filings contained false and misleading representations.

25. Upon soliciting investors to invest in the Precious Stones offering, Rapoport, E. Landenbaum and I. Landenbaum sent, or directed others to send, a private placement memorandum ("PPM") dated November 1, 1997, and a PPM amendment dated November 1, 1999, to investors (collectively, the "Offering Memoranda"). The Offering Memoranda contained additional misrepresentations about the Precious Stones offering, including, but not limited to, the following:

- a) the aggregate offering price in the Precious Stones offering was \$2,000,000;
- b) as of November 1, 1999, \$1,373,000 had been raised in the offering;
- c) investor funds would be held in escrow;
- d) Precious Stones officers, directors and employees would not receive any sales commissions for selling Precious Stones stock in the offering;
- e) \$200,000 would be paid in sales commissions; and
- f) at least \$1,700,000 of the proceeds raised in the Precious Stones offering would be used for Precious Stones' business, including working capital, inventory, advertising and marketing;

26. The statements to investors contained in Paragraph 25 were materially false and misleading because: (a) approximately \$5.5 million was actually raised in the Precious Stones offering; (b) as of November 1, 1999, more than \$2.7 million had been raised in the Precious Stones offering; (c) instead of being deposited into and retained in an escrow account, investor funds were deposited into and diverted from a checking account of Precious Stones controlled by Rapoport; (d) approximately \$1.2 million of the proceeds actually raised in the offering went to Rapoport; (e) more than \$800,000 of the proceeds actually raised in the offering went to bank accounts opened by Conway on behalf of the Defendants; (f) more than \$260,000 of the proceeds actually raised was paid to Rapoport, through Antique Art; and (g) more than \$2.3 million of the proceeds actually raised was paid to the Landenbaums, through ADF.

27. Precious Stones, Rapoport, E. Landenbaum and I. Landenbaum knew, or were reckless in not knowing, that the offering memoranda contained false and misleading representations.

Additional Misrepresentations Made to Conceal the Fraud and Continue the Offering

28. When investors in the Precious Stones offering raised concerns about the delays in the promised Precious Stones IPO, Rapoport, E. Landenbaum and I. Landenbaum made material misrepresentations to conceal the fraud and to allow the fraudulent Precious Stones offering to continue. For example,

- a) Rapoport told at least one investor that the delays were due to market instability;

- b) E. Landenbaum told at least one investor that the delays were due to Precious Stones' impending purchase of emeralds worth between \$20 to \$30 million; and
- c) I. Landenbaum told at least one investor that, if the Precious Stones IPO did not occur, the investor could get his money back.

29. Each of the statements described in Paragraph 28 was materially false and misleading and was made simply to allay concerns raised by investors.

30. Precious Stones, Rapoport, E. Landenbaum and I. Landenbaum knew, or were reckless in not knowing, that each of the representations described in Paragraph 28 was false and misleading.

FIRST CLAIM FOR RELIEF

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

(Against Defendants Precious Stones, Rapoport, E. Landenbaum, and I. Landenbaum)

31. The Commission repeats and realleges the allegations contained in Paragraphs 1 through 30 by reference as if fully set forth herein.

32. Defendants, directly and indirectly, singly and in concert, knowingly or recklessly, by the use of the means or instruments of transportation or communication in, and the means or instrumentalities of, interstate commerce or by the use of the mails, in the offer or sale, and in connection with the purchase or sale, of securities: (a) have employed devices, schemes or artifices to defraud; (b) have obtained money or property by means of, or otherwise have made untrue statements of material fact, or have omitted to state material facts necessary to make the statements, in light of the circumstances under which they were made, not misleading; or (c)

have engaged in transactions, acts, practices and courses of business which have operated as a fraud or deceit upon purchasers or other persons.

33. As part of and in furtherance of this violative conduct, Precious Stones, Rapoport, E. Landenbaum, and I. Landenbaum, directly or indirectly, made the representations alleged in Paragraphs 19 and 28, above, and sent the Offering Memoranda containing the material misrepresentations alleged in Paragraph 25, above, to investors.

34. As part of and in furtherance of this violative conduct, Rapoport, directly or indirectly, filed the Form Ds containing the material misrepresentations alleged in Paragraph 22, above, with the Commission.

35. The false statements and omissions made by Defendants, more fully described in Paragraphs 19, 22, 25 and 28, above, were material.

36. The Defendants knew, or were reckless in not knowing, that the material misrepresentations, more fully described in Paragraphs 19, 22, 25 and 28, above, were false or misleading.

37. By reason of the acts, omissions, practices, and courses of business set forth in this Complaint, Defendants have violated and, unless restrained and enjoined, will again violate, Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Rule 10b-5.

SECOND CLAIM FOR RELIEF

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

(Against Defendants Precious Stones, Rapoport, E. Landenbaum, and I. Landenbaum)

38. The Commission realleges and incorporates Paragraphs 1 through 30 by reference as if fully set forth herein.

39. Defendants Precious Stones, Rapoport, E. Landenbaum, and I. Landenbaum, directly and indirectly, singly and in concert, have made use of the means or instruments of transportation or communication in interstate commerce, or of the mails, to offer and sell securities through the use or medium of a prospectus or otherwise when no registration statement has been filed or was in effect as to such securities and when no exemption from registration was available.

40. By reason of the foregoing, Defendants Precious Stones, Rapoport, E. Landenbaum, and I. Landenbaum, violated and, unless restrained and enjoined, will again violate, Sections 5(a) and 5(c) of the Securities Act.

THIRD CLAIM FOR RELIEF

Violations of Section 15(a) of the Exchange Act

(Against Rapoport, E. Landenbaum and I. Landenbaum)

41. The Commission realleges and incorporates Paragraphs 1 through 30 by reference as if fully set forth herein.

42. From in or about October 1997 through the present, Rapoport, E. Landenbaum and I. Landenbaum, directly or indirectly, by use of the mails or the means or instrumentalities of interstate commerce, while acting as brokers whose business was not exclusively intrastate, effected transactions in, and induced and attempted to induce the purchase or sale of, securities (other than an exempted security or commercial paper, banker's acceptances, or commercial bills) -- namely purported shares of Precious Stones offered in a purported private placement offering -
- without registering as brokers in accordance with Section 15(b) of the Exchange Act, 15 U.S.C. § 78o(b).

43. By reason of the foregoing, Rapoport, E. Landenbaum and I. Landenbaum violated, and, unless restrained and enjoined, will again violate, Section 15(a) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff respectfully requests that this Court:

I.

Enter a Final Judgment permanently enjoining Precious Stones, Rapoport, E. Landenbaum, and I. Landenbaum, their officers, 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, directly or indirectly, Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5.

II.

Enter a Final Judgment permanently enjoining Precious Stones, Rapoport, E. Landenbaum, and I. Landenbaum, their officers, 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, directly or indirectly, Sections 5(a) and (c) of the Securities Act.

III.

Enter a Final Judgment permanently enjoining Rapoport, E. Landenbaum and I. Landenbaum, their officers, 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, directly or indirectly, Section 15(a) of the Exchange Act.

IV.

Enter a Final Judgment requiring each of the Defendants to disgorge an amount equal to the funds and benefits they obtained illegally as a result of the violations alleged herein, plus prejudgment interest on that amount.

V.

Enter a Final Judgment assessing penalties against each of the Defendants pursuant to Section 20(d) of the Securities Act and Section 21(d) of the Exchange Act.

VI.

Grant such other and further relief as this Court shall deem just and proper:

DEMAND FOR JURY TRIAL

Plaintiff, pursuant to Rule 38(b) of the Federal Rules of Civil Procedure, hereby demands
a trial by jury for all issues so triable.

Dated: August 16, 2000
New York, New York

Respectfully Submitted,

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