

UNITED STATES DISTRICT COURT  
FOR THE  
DISTRICT OF COLUMBIA

FILED

SEP 18 1998

NANCY MAYER WHITTINGTON, CLERK  
U.S. DISTRICT COURT

SECURITIES AND EXCHANGE COMMISSION  
450 Fifth Street, N.W.  
Washington, D.C. 20549,

Plaintiff,

v.

MICHELLE SOTNIKOW  
8 Milford Court  
Plainview, NY 11803

Defendant.

CASE NUMBER 1:98CV02227

JUDGE: Gladys Kessler

DECK TYPE: Civil General

DATE STAMP: 09/18/98

COMPLAINT

Plaintiff Securities and Exchange Commission ("SEC" or "Commission") alleges:

SUMMARY

1. This case arises from defendant Michelle Sotnikow's ("Sotnikow") participation in a massive fraud concerning Systems of Excellence, Inc. ("SOE"), a microcap issuer. Sotnikow, a New York stock promoter, together with Charles O. Huttoe ("Huttoe"), the former Chairman and Chief Executive Officer of SOE, and Sheldon Kraft ("Kraft"), a former registered representative, among others, manipulated the market for the stock of SOE. Sotnikow introduced Huttoe to stock brokers in order to obtain their agreement to recommend SOE stock to their customers. Huttoe then bribed those brokers with SOE shares and cash. For her participation in the SOE fraud, Sotnikow received 600,000 shares of unregistered, but

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By Cahin D. Crang  
66603 Deputy Clerk

unrestricted and free-trading SOE stock. Sotnikow sold a portion of those shares for proceeds of \$474,308.

2. By engaging in this conduct, Sotnikow directly or indirectly violated, is violating, and unless restrained will violate the antifraud and securities registration provisions of the federal securities laws, specifically, Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77e(a), 77e(c), and 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].

### **JURISDICTION**

3. This Court has jurisdiction of this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], and Section 27 of the Exchange Act [15 U.S.C. § 78aa], and 28 U.S.C. § 1331.

4. The Commission brings this action pursuant to authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)], and Section 21(d)(1) of the Exchange Act [15 U.S.C. § 78u(d)(1)].

5. Defendant, directly or indirectly, has made use of the means and instrumentalities of interstate commerce, or of the mails, or of the facilities of a national securities exchange in connection with the acts, practices, and courses of business alleged herein.

### **DEFENDANT**

6. **Michelle Sotnikow** ("Sotnikow"), age 33, is a New York stock promoter who ran the public relations firm Internetwork Communications.

### **OTHER INDIVIDUALS AND ENTITIES**

7. **Systems of Excellence, Inc. ("SOE")**, was a Florida corporation that, at the relevant time, was purportedly engaged in the manufacture and distribution of video teleconferencing equipment, and its stock was quoted on the OTC Bulletin Board. SOE is in bankruptcy liquidation proceedings.

8. **Charles O. Huttoe ("Huttoe")** was formerly the Chairman and CEO of SOE. On November 7, 1996, in an action styled SEC v. Huttoe, et al., Civ. Act. No. 96-02543 (GK) (D.D.C.), the Commission sued Huttoe alleging violations of the federal securities laws for his role in the fraud involving SOE, which he resolved by consenting to, among other things, the entry of a permanent injunction. Huttoe also pleaded guilty to one count of securities fraud and one count of money laundering arising from his conduct at SOE.

9. **Sheldon Kraft ("Kraft")** is a former stockbroker. On January 14, 1998, in an action styled SEC v. Kraft, Civ. Act. No. 98-0095 (D.D.C.), the Commission sued Kraft alleging violations of the federal securities laws for his role in the fraud involving SOE, which he resolved by consenting to, among other things, the entry of a permanent injunction. Kraft also pleaded guilty to a criminal information charging him with one count of conspiracy to commit securities fraud and money laundering, and one count of failure to file tax returns arising from his conduct in the SOE fraud.

### **THE FRAUDULENT SCHEME**

10. In 1995, Sotnikow and Kraft formed Internetwork Communications ("Internetwork") as a vehicle through which they would take bribes in the form of stock in

exchange for "promoting" the securities of those issuers. Pursuant to their deal, Sotnikow and Kraft were each entitled to one-half of what Internetwork received from issuers.

11. In the fall of 1995, Kraft introduced Sotnikow to Huttoe as someone who could introduce Huttoe to retail brokers who could sell SOE stock.

12. At about the time of her introduction to Huttoe, Sotnikow received 100,000 shares of unregistered SOE stock from Huttoe.

13. Following their introduction, Sotnikow and Huttoe traveled as a team to brokers with whom Sotnikow had contacts in order to promote SOE. As a result of Sotnikow's introductions, Huttoe struck a deal with Wall Street Management Group, Inc. ("WSMG"), an entity controlled by a registered representative and his partner. In addition, Sotnikow, Huttoe and others met with employees of J.S. Securities, Inc. ("J.S. Securities"), a registered broker-dealer. Thereafter, Huttoe struck a deal with J.S. Securities.

14. Huttoe offered WSMG shares of SOE stock in exchange for efforts by that firm to enlist brokers to "push" SOE stock on unwitting investors. Huttoe then had Sotnikow deliver 500,000 SOE shares to a principal of WSMG.

15. Huttoe also paid J.S. Securities with SOE shares to induce the firm to "push" SOE stock on their retail customers. Huttoe also arranged to open nominee accounts with J.S. Securities through which he sold SOE shares that he personally controlled. As part of that arrangement Huttoe paid \$255,000 of the proceeds of those sales to J.S. Holdings, the parent of J.S. Securities.

16. In exchange for introductions to brokers, Sotnikow received from Huttoe an additional 500,000 shares of unregistered but unrestricted and free trading SOE stock, half of which she transferred to a Kraft nominee pursuant to their Internetwork arrangement.

17. Between February 28 and October 4, 1996, through two separate securities accounts, Sotnikow sold 210,000 shares of the unregistered SOE stock for proceeds of \$474,308.

**CLAIM ONE**  
**(SALE OF UNREGISTERED SECURITIES)**

**Violations of Section 5(a) and  
5(c) of the Securities Act  
[15 U.S.C. §§ 77e(a) and 77e(c)]**

18. Paragraphs 1 through 17 are hereby realleged and incorporated by reference.

19. By reason of the foregoing, defendant Sotnikow, directly or indirectly, has violated Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

**CLAIM TWO**  
**(FRAUDULENT OFFER, PURCHASE AND SALE)**

**Violations of Section 17(a) of the  
Securities Act [15 U.S.C. § 77q(a)], Section 10(b) of  
the Exchange Act [15 U.S.C. § 78j(b), and Rule  
10b-5 thereunder [17 C.F.R. § 240.10b-5]**

20. Paragraphs 1 through 17 are hereby realleged and incorporated by reference.

21. By reason of the foregoing, defendant Sotnikow, directly or indirectly, has violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], and defendant Sotnikow directly or indirectly, has violated, is violating, and unless restrained will violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)], and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

**PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that this Court issue Orders:

**I.**

Permanently enjoining defendant Sotnikow, and her agents, servants, employees, attorneys, and those persons in active concert or participation with them who receive actual notice by personal service or otherwise, from violating, directly or indirectly, Sections 5(a), 5(c), and 17(a) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c), and 77q(a)], Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)], and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].

**II.**

Directing Sotnikow to disgorge all illegal gains, together with prejudgment interest.

**III.**

Granting such other relief as this Court may deem just and proper.

Respectfully submitted,



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Dated: September 18, 1998  
Washington, D.C.