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***Not admitted in the Eastern District of New York**

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,	:	
Plaintiff,	:	**18-CV-_____ (____)**
-against-	:	**COMPLAINT**
SHARONE PERLSTEIN, ARIC YERUSALEM SWARTZ a/k/a ERIC YERUSALEM SWARTZ, and HADAS MIRIAM YARON,	:	
Defendants.	:	

Plaintiff Securities and Exchange Commission (the "Commission"), for its Complaint against defendants Sharone Perlstein ("Perlstein"), Aric Yerusalem Swartz a/k/a Eric Yerusalem Swartz ("Swartz"), and Hadas Miriam Yaron ("Yaron") (collectively, "Defendants"), alleges as follows:

SUMMARY

1. Defendants orchestrated a fraudulent scheme to create and sell publicly-traded shell companies while concealing Defendants' control of the companies and the companies' lack of any actual or intended business. Defendants operated their lucrative "shell factory" from Israel.

2. Between 2010 and 2014, Defendants created at least fifteen shell companies following essentially the same steps. Defendants formed a United States corporation, issued stock to nominee officers and directors, created a phony business plan for the corporation, and hired an accounting firm to perform a sham audit. Defendants then conducted a U.S. initial public offering, in which they purportedly sold the corporations' shares to purchasers, when in reality Defendants continued to control the shares while nominally placing them in the names of straw-man shareholders.

3. To further their scheme, Defendants filed false registration statements (and later false periodic reports) with the Commission.

4. These filings concealed the fact that Defendants controlled the corporations, created them solely in order to sell them, and never intended to implement the stated business plans (or any other business plans) for the corporations, among other things.

5. Once Defendants had conducted a sham initial public offering using straw-man purchasers, Defendants arranged to obtain a trading symbol for the shell companies, to make the shells' shares eligible for trading in the over-the-counter market, and to apply for Depository Trust Company ("DTC") eligibility so that the shares could be traded electronically.

6. Defendants then sold (or tried to sell) the shell companies—with the ready-to-trade shares Defendants controlled—to buyers. Defendants profited by over $1.8 million from their fraudulent scheme.

VIOLATIONS

7. As a result of the foregoing conduct and as alleged further herein, Defendants violated 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].

8. Unless Defendants are permanently restrained and enjoined, they will again engage in the acts, practices, transactions, and courses of business set forth in this Complaint or in acts, practices, transactions, and courses of business of similar type and object.

NATURE OF THE PROCEEDINGS AND RELIEF SOUGHT

9. The Commission brings this action pursuant to the authority conferred upon it by Securities Act Section 20(b) [15 U.S.C. § 77t(b)] and Exchange Act Section 21(d) [15 U.S.C. § 78u(d)] and seeks a final judgment: (i) permanently restraining and enjoining Defendants from violating Securities Act Section 17(a) [15 U.S.C. § 77q(a)], Exchange Act Section 10(b) [15 U.S.C. § 78j(b)], and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]; (ii) requiring Defendants to disgorge the ill-gotten gains they received as a result of the violations and to pay prejudgment interest thereon, pursuant to Exchange Act Section 21(d)(5) [15 U.S.C. § 78u(d)(5)]; (iii) permanently prohibiting Defendants from participating in any offering of a penny stock, pursuant to Securities Act Section 20(g) [15 U.S.C. § 77t(g)] and Exchange Act Section 21(d)(6) [15 U.S.C. § 78u(d)(6)]; and (iv) ordering any other relief the Court may deem just and appropriate.

JURISDICTION AND VENUE

10. This Court has jurisdiction over this action pursuant to Securities Act Section 22(a) [15 U.S.C. § 77v(a)] and Exchange Act Section 27 [15 U.S.C. § 78aa].

11. Defendants have, directly or indirectly, made use of the means or instrumentalities of interstate commerce or of the mails, in connection with the transactions, acts, practices and courses of business alleged in this Complaint.

12. Venue lies in the Eastern District of New York under Securities Act Section 22(a) [15 U.S.C. § 77v(a)] and Exchange Act Section 27 [15 U.S.C. § 78aa] because certain of the transactions, acts, practices and courses of conduct constituting violations of the federal securities laws occurred within this district. Among other things, individuals residing in Brooklyn, New York purchased securities of at least one of the shell companies after the securities were sold to the investing public.

DEFENDANTS

13. **Perlstein**, age 46, has dual Israeli and United States citizenship and currently resides in Herzliya, Israel. Perlstein runs and beneficially owns a company in Israel known as Chelsea Tech. He provided financing to create the shells and participated in developing the fictitious business plans. He led the effort to find nominee shareholders, officers, and directors for the shell companies and to sell the shells.

14. **Swartz**, age 52, has dual Israeli and United States citizenship and currently resides in Nes Ziona, Israel. Swartz, self-employed, practices law in Israel. Swartz participated in preparing the incorporation documents, the registration statements, and other shell corporation filings with the Commission and in responding to questions and comments from the Commission staff during the registration process.

15. **Yaron**, age 48, is an Israeli citizen residing in Zoran, Israel. An employee of Chelsea Tech from 2010 to 2015, she served as Perlstein's assistant in the shell factory operation.

FACTS

16. Between 2010 and 2014, Defendants created at least fifteen shell companies, including: Aquino Milling, Inc., now known as AV Therapeutics, Inc.; Duane Street Corp., now known as Cur Media; Eco Planet Corp., now known as J.E.M. Capital Ltd.; Epsilon Corp., now known as Gase Energy, Inc.; Flaster Corp.; iLoan, Inc.; Instride, Inc.; L3 Corp., now known as Praetorian Property, Inc.; Lollipop Corporation; Marathon Bar Corporation, now known as Lipocine, Inc.; Olie, Inc., now known as Syndicate Business Development Corporation; Olivia Inc., now known as Bio-En Holdings Corporation; Secure It Corporation, now known as Black Stallion Oil and Gas, Inc.; Universal Tech Corporation, now known as Bay Stakes Corporation; and Zubra Inc.

17. Defendants followed essentially the same process in creating each of these shell companies, as described below.

I. Formation of the Shell Corporations

18. Perlstein decided when to create a new shell and provided funding for the formation expenses.

19. Defendants chose the name of each shell somewhat arbitrarily—for example, based on a street where one of the Defendants had lived or the name of a pet dog.

20. Defendants then created a phony business plan that they never intended to implement for the shell.

21. To find people to serve as each shell's nominal officers and directors, Perlstein asked relatives or friends or paid an associate of his to find people.

22. The individuals named as officers and directors had no connection to the shell corporation, except on paper. These nominal directors and officers also purportedly served as the shell corporation's initial shareholders, although they never actually received any shares.

23. Defendants used an Israeli address for some of the shell corporations. In those cases, Defendants typically used the address of one of the nominee officers or directors as the corporation's address.

24. Defendants used a U.S. address for other shell corporations. For those shells, Yaron set up a virtual address in the U.S.

25. Once Defendants had nominee officers, directors, and initial shareholders in place for a shell, Yaron began its incorporation process.

26. Perlstein or his associate sent Yaron the names of the nominee officers and directors, along with copies of their photo identifications, biographies, and a sheet of paper with multiple signatures that Yaron could cut and paste into corporate documents, as needed.

27. Yaron and Swartz collaborated on preparing the corporate by-laws, resolutions, and other documents needed to form each shell corporation.

28. Yaron set up bank and email accounts for each shell and purchased an Internet domain name.

29. An attorney located in the U.S. typically helped Yaron set up the shell's U.S. bank accounts and often served as a nominal corporate officer and signatory on the accounts.

30. In reality, Yaron controlled each shell's bank and email accounts and communicated on behalf of the shell's nominee officers and directors when necessary.

II. The Shells' Initial Public Offerings

31. To enable each shell corporation to file registration statements with the Commission on Form S-1, Perlstein hired an accounting firm to audit the shell's financials.

32. The accounting firm dealt exclusively with Defendants and never spoke to the shell's nominee officers and directors during the audit.

33. With assistance from Yaron, Perlstein, and the attorney located in the U.S., Swartz drafted the S-1 registration statements, caused them to be filed with the Commission, and handled comments from the Commission staff.

34. Each S-1 registration statement claimed that the corporation had a specified business plan. For example, L3 Corp.'s registration statement claimed that the company "engaged in one line of business," which was "developing and marketing a fitness apparatus by selling such apparatus on the internet, direct to private trainers, gym and health spas and educating private instructors of the uses of our fitness apparatus."

35. Yet the S-1 registration statements filed by each shell corporation concealed that: (a) Defendants had formed and solely controlled each corporation; (b) Defendants had created each corporation solely to sell it; (c) Defendants had never intended to execute the business plan provided for each corporation; and (d) for each corporation, Defendants had installed nominee officers, directors, and shareholders whom Defendants controlled.

36. If the shell corporation's registration statement became effective, Perlstein then orchestrated an initial public offering of the corporation's shares.

37. To do this, at Perlstein's instruction, Yaron contacted Perlstein's associate to have him find straw-man shareholders.

38. Defendants paid Perlstein's associate a fee and reimbursed him for his expenses in signing up the purported shareholders, which sometimes included small payments to individuals for agreeing to act as purported shareholders.

39. Yaron provided Perlstein's associate with the number of purported shareholders needed, the total number of shares to be issued, and the number of shares to purportedly be allocated to each shareholder.

40. Yaron also provided Perlstein's associate with the documents that Swartz had drafted for the purported shareholders to sign.

41. Perlstein typically sought approximately 40 purported shareholders for each shell so that the company would not appear to be controlled by only a few individuals—which Defendants considered a red flag for regulators, including the Commission.

42. Perlstein's associate had the shareholders sign the documents, including stock purchase agreements, and provide him with photocopies of personal checks in the amount of the total price of the shares they were purportedly purchasing to make it appear that they had actually paid for the shares.

43. Defendants never deposited these checks. Defendants maintained copies of the checks in order to falsely document the purported sale of the shares to independent shareholders, in case it ever became necessary to provide such evidence.

44. To further create the appearance that independent shareholders had actually purchased the shell's shares, Perlstein transferred the amount of money purportedly raised from the phony sales into the shell corporation's bank account from an account under his control.

45. Perlstein's associate provided Yaron with a list of the purported shareholders he had recruited.

46. For each shell corporation, Yaron signed a contract with a transfer agent on behalf of the shell by using the digital signature of one of the shell's nominee directors.

47. Yaron then sent the purported shareholder list she had received from Perlstein's associate to the transfer agent.

48. Yaron communicated with the transfer agent using an email account that appeared to come from the shell corporation itself.

49. Yaron—in the guise of one of the shell's nominee officers or directors—then instructed the transfer agent to print stock certificates and a certified shareholder list and to send these documents to one of the corporation's officers or directors by an overnight delivery service.

50. Next, if she knew she could easily do so, Yaron obtained the package directly from the nominee officer or director. Otherwise, Yaron contacted the overnight delivery service while the package was in transit, posed as the package's intended recipient, and asked the delivery service to re-direct the package to her home address.

51. Yaron retained all of the share certificates for each shell until Defendants sold it.

III. Making the Shells' Shares Eligible for Electronic Trading

52. To maximize the value of the shell to potential buyers, Defendants tried to make each shell's publicly-held shares eligible to trade in the over-the-counter market.

53. To accomplish this, Perlstein and Yaron arranged for a registered broker-dealer to file a 15c2-11 application ("211 Application") with the Financial Industry Regulatory Authority ("FINRA") and to obtain a ticker symbol.

54. After FINRA had approved the 211 Application and assigned a ticker symbol to the shell corporation, Defendants applied for DTC eligibility to enhance the value of the shell to buyers. DTC eligibility allowed the shares to be held in street name and trade electronically, which eliminated the need for brokers to physically transfer paper share certificates.

55. As part of this process, Defendants sought to show that market participants actually traded the shell company's stock in order to set a price for the stock.

56. To accomplish this, Perlstein orchestrated phony trades by selling shares in one account he controlled and purchasing the same shares in another account he controlled. This served to establish a price for the stock and, more significantly, allowed Perlstein to maintain control of the shares used in the transaction.

57. The publicly-traded shares of each shell corporation that succeeded in conducting a public offering traded for less than five dollars per share.

IV. Selling the Shells for Significant Profit

58. Defendants' ultimate goal was to sell the shell for a significant profit to a buyer seeking a shell company with publicly-traded shares. This was accomplished either by way of a traditional stock sale or through a reverse merger, where the public company was taken over by a private company.

59. To find a buyer for the shells, Perlstein typically used two individuals who acted as brokers in finding shell buyers. These shell brokers practiced as attorneys in the U.S. and acted as intermediaries between the shell purchasers and Defendants.

60. When Defendants successfully obtained a buyer for a shell, Yaron sent the stock certificates—held in the names of the straw-man shareholders—with signed stock powers to the shell broker.

61. One of the shell brokers drafted the new stock purchase agreements and related documents, collected the funds from the buyer, and transferred the net sale proceeds to Perlstein, usually indirectly, either in a single wire transfer or in multiple checks made payable to each of the straw-man shareholders.

62. If the broker used checks payable to the straw-man purchasers, Yaron received the checks and gave them to Perlstein's associate, who then cashed the checks and delivered the proceeds to Perlstein. Defendants collectively profited by over $1.8 million from the sale of the shell corporations they had created.

63. The straw-man shareholders never received the proceeds from the sale of the shares purportedly issued to them.

FIRST CLAIM FOR RELIEF
Violations of Securities Act Section 17(a)
(All Defendants)

64. Paragraphs 1 through 63 are re-alleged and incorporated by reference as if fully set forth herein.

65. Defendants Perlstein, Swartz, and Yaron, directly or indirectly, singly or in concert, in the offer or sale of securities and by the use of the means or instruments of transportation or communication in interstate commerce, knowingly or recklessly have: (a) employed devices, schemes, or artifices to defraud; (b) obtained money or property by means of untrue statements of a material fact or omissions of a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon the purchaser.

66. By reason of the foregoing, Defendants Perlstein, Swartz, and Yaron, directly or indirectly, singly or in concert, have violated, and unless enjoined will again violate, Securities Act Section 17(a) [15 U.S.C. § 77q(a)].

SECOND CLAIM FOR RELIEF
Violations of Exchange Act Section 10(b) and Rule 10b-5 Thereunder
(All Defendants)

67. Paragraphs 1 through 63 are re-alleged and incorporated by reference as if fully set forth herein.

68. Defendants Perlstein, Swartz, and Yaron, directly or indirectly, singly or in concert, in connection with the purchase or sale of securities and by the use of the means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange, knowingly or recklessly have: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made,

in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons.

69. By reason of the foregoing, Defendants Perlstein, Swartz, and Yaron, directly or indirectly, singly or in concert, have violated, and unless restrained and enjoined will again violate, Exchange Act Section 10(b) [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 a Final Judgment:

I.

Permanently enjoining Defendants and their agents, servants, employees, and attorneys, and all persons in active concert or participation with any of them who receive actual notice of the final judgment by personal service or otherwise, and each of them, from future violations of Securities Act Section 17(a) [15 U.S.C. § 77q(a)], Exchange Act Section 10(b) [15 U.S.C. § 78j(b)], and Rule 10b-5 thereunder [17 C.F.R. §§ 240.10b-5];

II.

Ordering Defendants to disgorge all ill-gotten gains they received directly or indirectly, with prejudgment interest thereon, as a result of the violations alleged in this Complaint;

III.

Permanently prohibiting Defendants from participating in any offering of a penny stock, including engaging in activities with a broker, dealer, or issuer for purposes of issuing, trading, or inducing or attempting to induce the purchase or sale of any penny stock, under Securities Act Section 20(g)(1) [15 U.S.C. § 77t(g)(1)] and Exchange Act Section 21(d)(6) [15 U.S.C. § 78u(d)(6)]; and

IV.

Granting any other and further relief this Court deems appropriate.

Dated: New York, New York
February 15, 2018

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