

UNITED STATES DISTRICT COURT
FOR THE
DISTRICT OF COLUMBIA

SECURITIES AND EXCHANGE COMMISSION :
450 Fifth Street, N.W. :
Washington, DC 20549-0706 :

Plaintiff,

CASE NUMBER 1:00CV02145

v.

JUDGE: Gladys Kessler

KENNETH STEINER
940 Johnston Drive
Watchung, NJ 07060

DECK TYPE: Civil General

DATE STAMP: 09/07/2000

and

WOODBIDGE FAMILY
MEDICAL ASSOCIATES, P.C.
One Woodbridge Center
Woodbridge, NJ

Defendants.

COMPLAINT

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

INTRODUCTION

1. This case concerns the unlawful resale of unregistered securities in violation of the strict-liability registration provisions of the federal securities laws. The SEC brings this action to enjoin Defendants Kenneth Steiner ("Steiner") and Woodbridge Family Medical Associates, P.C. ("Woodbridge") from further violation of these provisions, to recover Steiner's and Woodbridge's ill-gotten gains, to recover

prejudgment interest thereon, and to impose a civil monetary penalty for Steiner's conduct.

2. In two separate transactions in March and June 1996, Steiner acquired – for himself, his corporate medical practice and in the names of nominees – a total of 689,655 newly-issued shares of Systems of Excellence, Inc. (“SOE”) common stock in a private placement.

3. In the first of these transactions, in March 1996, Steiner caused Woodbridge to purchase 344,827 newly-issued SOE shares at a total cost of \$100,000. Woodbridge, acting through Steiner, soon resold 151,750 of those shares for profits totaling \$322,141. Because these shares were neither registered nor exempt from registration, Woodbridge and Steiner violated the registration provisions of the federal securities laws when they resold these shares.

4. In the second transaction, in June 1996, Steiner acquired another 344,828 newly-issued SOE shares at a total cost of \$100,000. He placed 86,207 shares each in: (i) his name, (ii) his wife's name and (iii) the names of his two minor children. In each instance, Steiner soon resold all of those shares for profits totaling \$602,648. Because these shares were neither registered nor exempt from registration, Steiner violated the registration provisions of the federal securities laws when he resold his shares and the shares of his nominees.

5. Steiner and Woodbridge, directly or indirectly, have engaged in transactions, acts, practices, and courses of business which constitute violations of Sections 5(a) and 5(c) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77e(a) and 77e(c)], and, unless enjoined, are likely to do so in the future.

JURISDICTION AND VENUE

6. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)].

7. The Commission brings this action pursuant to authority conferred upon it by Sections 20(b) and 20(d) of the Securities Act [15 U.S.C. §§ 77t(b) and 77t(d)].

8. Defendants, directly and indirectly, used the means and instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange, in connection with the acts, practices, and courses of business alleged herein.

DEFENDANTS

9. Kenneth Steiner (“Steiner”), age 46, is a medical doctor who has also been licensed in the securities industry. At the time he purchased SOE shares through a private placement, Steiner held National Association of Securities Dealers (“NASD”) Series 7 and 63 licenses as a registered representative. In account opening documents at various brokerage firms, Steiner indicated that he possessed extensive experience in the areas of stock, option, and bond trading.

10. Woodbridge Family Medical Associates, P.C. (“Woodbridge”) is a medical practice located in New Jersey. Kenneth Steiner is the President of Woodbridge, and he directed Woodbridge’s purchases and resales of SOE stock.

OTHER INDIVIDUALS AND ENTITIES

11. Systems of Excellence, Inc. (“SOE” or the “Company”), a Florida corporation, was first purportedly engaged in the manufacture and distribution of dental software and, later, in the distribution of video teleconferencing equipment designed for

use by hospitals and other medical facilities. At the relevant time, SOE common stock was quoted on the NASD OTC Bulletin Board. SOE has since ceased all operations and is currently in bankruptcy liquidation proceedings; its securities have been deregistered by the Commission pursuant to Section 12(j) the Securities Exchange Act of 1934.

12. Charles O. Huttoe ("Huttoe") was formerly the Chairman and Chief Executive Officer of SOE. In a prior action filed with this Court on November 7, 1996 (styled SEC v. Huttoe, et al., Civ. Act. No. 96-2543 (GK)(D.D.C.)), plaintiff accused Huttoe of violating the antifraud provisions of the federal securities laws for his role in a massive market manipulation of SOE securities. Huttoe consented to the entry of a civil injunction and, in a related criminal case, pleaded guilty to securities fraud and money laundering.

13. Sheldon Kraft ("Kraft") is a former stockbroker who acted as a promoter for SOE. In a prior action filed with this Court on January 14, 1998 (styled SEC v. Kraft, Civ. Act. No. 98-0095 (GK) (D.D.C.)), plaintiff accused Kraft of violating the antifraud provisions of the federal securities laws for his conduct relating to SOE. Kraft consented to the entry of a civil injunction and, in a related criminal case, pleaded guilty to conspiracy to commit securities fraud, money laundering, and failure to file tax returns.

CLAIM

STEINER'S AND WOODBRIDGE'S RESALES OF UNREGISTERED SOE SECURITIES VIOLATED SECTIONS 5(a) AND 5(c) OF THE SECURITIES ACT

14. Sections 5(a) and 5(c) of the Securities Act prohibit persons, directly or indirectly, from using any means or instruments of transportation or communication in interstate commerce or of the mails to sell, offer to sell, or offer to buy any security

unless: (i) a registration statement has been filed with the Commission and is in effect, or (ii) an exemption from the registration provisions applies.

**In July 1995 Steiner Is Introduced to
Huttoe and Provides Consulting Services for SOE**

15. In July 1995, Steiner's broker introduced him to Sheldon Kraft, who, in turn, introduced Steiner to Huttoe. Huttoe was seeking investors in SOE, at that time a dental software company which Huttoe and Kraft were promoting. Soon thereafter, Steiner began providing consulting services to SOE.

**In 1996 Steiner Acquires Shares in SOE's "Private Placement"
For Himself, His Family Members, and Woodbridge**

16. In January 1996, as a means of raising capital and of maintaining the appearance that SOE had substance, Huttoe arranged for SOE to make a \$1 million offering through a private placement of SOE stock. These SOE shares were offered and sold to investors pursuant to a Confidential Private Placement Memorandum ("CPPM").

17. Pursuant to the CPPM, investors were offered combination stock and loan "Units," with a minimum \$25,000 purchase. For the purchase of their units, each investor received: (i) a one-year note in the amount of their investment plus 10% interest payable semi-annually and (ii) SOE shares at no additional cost. The number of shares was calculated by dividing the dollar amount of the note by 120 percent of the closing bid price as of December 20, 1995, or \$.29 per share. Accordingly, for every \$25,000 invested, SOE issued 86,207 shares of "free" stock.

18. Purchasers of Units were required to complete a Subscription Agreement and Questionnaire in which purchasers represented, among other things, that they had read and understood the CPPM, that they understood that the Units had not been

registered under the Securities Act, and that the Units were not being acquired with a view to distribution. In addition, the CPPM stated the following:

ALL INVESTORS WILL BE REQUIRED TO UNDERTAKE THAT THEY WILL NOT RESELL THE UNITS EXCEPT IN A TRANSACTION WHICH IS PURSUANT TO REGISTRATION UNDER THE 1933 ACT OR WHICH DOES NOT REQUIRE REGISTRATION UNDER THE 1933 ACT.

19. Initially there was little interest by investors, including Steiner, in the private placement units. As the manipulation of the market for SOE common stock gained momentum, however, the underlying value of the so-called “free” shares – to be issued as part of the private placement units – increased to several multiples of the actual cost of private placement units, and demand for the offering increased.

20. In March 1996, Steiner obtained a copy of the CPPM, which stated that the shares he was to receive in the private placement would be restricted from resale for one year.

21. Woodbridge, acting through Steiner, invested \$100,000 pursuant to the CPPM and received 344,827 shares of SOE. Steiner, using \$100,000 acquired from his father, purchased an additional four Units and received four blocks of 86,207 shares. Steiner placed one block in his name and directed that the remaining three blocks be placed into the names of nominees, viz. one block each to his wife and to accounts in the names of his two minor daughters.

SOE Fraudulently Causes its Transfer Agent to Issue Unrestricted Share Certificates to Woodbridge, Steiner, and his Nominees

22. None of the 689,655 shares that Woodbridge, Steiner and his nominees received in the private placement were registered with the Commission, nor did the share certificates carry the proper “restricted” legend.

23. SOE caused its transfer agent to issue these facially unrestricted share certificates by presenting it with bogus Form S-8 registration statements, and misrepresenting that the Form S-8s had been filed with the Commission in March and May of 1996. In fact, no registration statement, on a Form S-8 or otherwise, had been filed with the Commission to register these shares.

**Steiner and Woodbridge Realize Profits Exceeding \$900,000
By Reselling Their Unregistered SOE Shares into the Manipulated Market**

24. Woodbridge, acting through Steiner, resold 151,750 of its private placement shares during July and August 1996, realizing a net profit of \$322,141.

25. In June 1996, Steiner, acting for himself and his family nominees, resold all of the shares that had been purchased with the \$100,000 acquired from his father. Steiner and his nominees received proceeds of \$702,648 for these unregistered resales, realizing a net profit of \$602,648.

26. On October 4, 1996, the Commission suspended trading in the securities of SOE for a ten-day period pursuant to Section 12(k) of the Securities Exchange Act of 1934.

27. Since at least June 25, 1996 and continuing through October 4, 1996, Defendants Steiner and Woodbridge, directly or indirectly:

(a) made use of the means or instruments of transportation or communication in interstate commerce or of the mails to sell securities as described herein, through the use or medium of a prospectus or otherwise;

(b) carried securities or caused such securities, as described herein, to be carried through the mails or in interstate commerce, by any means or instruments of transportation, for the purpose of sale or delivery after sale; and/or

(c) made use of the means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell or offer to buy through the use or medium of any prospectus or otherwise, as described herein,

without a registration statement having been filed or being in effect with the Commission as to such securities.

28. By reason of the foregoing, and because no exemption from registration was applicable to their resales, Defendants Steiner and Woodbridge violated Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

RELIEF REQUESTED

WHEREFORE, the SEC respectfully requests that the Court issue an Order:

A. permanently enjoining and restraining Defendants Steiner and Woodbridge, their officers, agents, servants, employees, nominees, attorneys, and all persons in active concert or participation with them, and each of them, from violating Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)];

B. requiring Steiner to disgorge \$602,648, representing all profits that he received as a result of the acts and/or courses of conduct complained of herein, together with prejudgment interest thereon;

C. directing Steiner to pay a one-time civil penalty pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d);


D. requiring Woodbridge and Steiner to jointly and severally disgorge \$322,141, representing all profits or proceeds that Woodbridge received as a result of

the acts and/or courses of conduct complained of herein, together with prejudgment interest thereon;

E. appointing a receiver to collect and marshal monies and others assets that are ordered by the Court to be disgorged by defendants Steiner and Woodbridge; and

F. granting such other and further relief as may be necessary and appropriate.

Respectfully submitted,



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