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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

ILAN ARBEL AND DAVID P. MELILLO,

Defendants.

Civil Action No.

GOLD, M.J.

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission") alleges the following against defendants Ilan Arbel ("Arbel") and David P. Melillo ("Melillo") (collectively, the "Defendants"):

SUMMARY

1. This action concerns a fraudulent scheme to sell the securities of Hollywood Productions, Inc. ("Hollywood"), through a broker-dealer, Euro-Atlantic Securities, Inc. ("Euro"), to the investing public at artificially inflated prices and to share the illicit profits. Pursuant to the scheme, Arbel, through his control of Hollywood securities, provided the supply of securities at a discount to Euro. Melillo, through his control of Euro, provided the retail sales

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operation – in essence a “boiler room” -- that created demand for Hollywood securities and controlled the price of Hollywood securities through fraudulent and deceptive sales practices.

2. The fraudulent sales practices included using part of the illicit proceeds to pay Euro brokers undisclosed commission “kickbacks” for selling Hollywood securities to customers, using customer funds to purchase Hollywood securities without customer authorization, refusing to execute customer requests to sell Hollywood securities and requiring customers to purchase Hollywood securities in the aftermarket in order to receive Hollywood securities in its initial public offering (“Hollywood IPO”).

3. As a result of their fraudulent scheme, the Defendants defrauded investors of approximately \$8 million from the sale of Hollywood securities.

NATURE OF THE PROCEEDINGS AND THE RELIEF SOUGHT

4. The Commission brings this action pursuant to authority conferred upon it by Section 20(b) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C. § 77t(b), and Section 21(d) of the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. § 78u(d), to obtain permanent injunctions against the Defendants, enjoining them from violating Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), and 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; and a permanent injunction against Melillo, enjoining him from violating Rule 101 of Regulation M, 17 C.F.R. § 240.101. In addition, the Commission seeks disgorgement, and prejudgment interest thereon and civil monetary penalties from the Defendants.

5. Unless permanently enjoined, the Defendants will continue to engage in similar transactions, acts, practices and courses of business described below.

STATUTES AND RULES ALLEGED TO HAVE BEEN VIOLATED

6. The Defendants have engaged, and unless enjoined, will continue to engage, directly or indirectly, in acts, practices, or courses of business, that constitute violations of Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), and 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.

7. Melillo has engaged, and unless enjoined, will continue to engage, directly or indirectly, in conduct that constitutes violations of Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-6 thereunder, 17 C.F.R. § 240.10b-6. Exchange Act Rule 10b-6 was in effect at all relevant times and remained in effect until March 4, 1997, when it was superseded by Regulation M, 17 C.F.R. § 240. The conduct herein that is alleged to violate Rule 10b-6 also would constitute a violation of Rule 101 of Regulation M, 17 C.F.R. § 240.101.

JURISDICTION AND VENUE

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

9. Venue lies in this Court 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. Certain of the transactions, acts, practices and courses of business alleged herein occurred within the Eastern District of New York, including Defendant Melillo's use of a nominee account with an address located in the Eastern District of New York, and at least one customer of Euro located in the Eastern District of New York purchased Hollywood's securities as a result of this scheme.

10. Defendants, directly or indirectly, have made use of the means or instrumentalities of interstate commerce, the means or instruments of transportation or

communication in interstate commerce, and/or the mails, in connection with the acts, practices and courses of business alleged herein.

DEFENDANTS

11. Arbel, age 48, is a resident of New York, New York, and a citizen of Israel. At all relevant times, Arbel controlled European Ventures Corporation (“EVC”), which owned 96% of Hollywood’s common stock before the Hollywood IPO.

12. Melillo, age 40, resides in Saint Petersburg, Florida. At all relevant times, Melillo was the president and chief executive officer of Euro.

RELATED ENTITIES

13. Euro is a defunct Florida corporation that was registered with the Commission as a broker-dealer pursuant to Section 15(b) of the Exchange Act on November 10, 1987. At all relevant times, Euro maintained headquarters in Boca Raton, Florida, and branch offices located at 30 Broad Street, Manhattan (the “Broad Street Branch”) and in Staten Island, New York. On March 7, 1997, Euro suspended operations. On July 24, 1997, the National Association of Securities Dealers, Inc., expelled Euro from its membership for using manipulative, deceptive or other fraudulent devices. At all relevant times, Euro was a market maker for Hollywood securities.

14. Hollywood is a Delaware corporation organized in December 1995 for the purpose of acquiring screenplays and producing low budget motion pictures. Melillo’s cousin, Robert Melillo, was president of Hollywood. Until May 1999, Hollywood’s common stock and warrants traded on the NASDAQ SmallCap Market, under the symbols FILM and FILMW, respectively. Hollywood securities are registered with the Commission pursuant to Section 12(g) of the Exchange Act. In May 1999, Hollywood changed its name to Shopnet.com, Inc., and its stock and warrants now trade under the

symbols SPNT and SPNTW, respectively. At all relevant times, Arbel controlled Hollywood through EVC.

FACTS

The Fraudulent Scheme

15. At all relevant times, Melillo supervised operations at Euro and ran Euro's business. In particular, Melillo managed Euro's brokers and reviewed and approved scripts used by Euro's brokers to sell Hollywood securities to investors.

16. At all relevant times, Arbel controlled the offer and sale of Hollywood securities by EVC and Hollywood. Arbel negotiated the Hollywood IPO with Euro. Arbel controlled EVC's brokerage accounts.

17. In 1996, Arbel and Melillo agreed to a fraudulent scheme to sell Hollywood securities to the investing public at artificially inflated prices and to share the illicit profits. Pursuant to the scheme, Arbel, through his control of Hollywood securities, provided the supply of securities at a discount to Euro. Melillo, through his control of Euro, provided the retail sales operation that created demand for Hollywood securities and controlled the price of Hollywood securities through fraudulent and deceptive sales practices.

The Hollywood IPO, the EVC Offering and Sales to the Public

18. Arbel supplied Hollywood securities to Euro through two separate offerings: the Hollywood IPO and the EVC Offering. Euro, in turn, sold the Hollywood securities to customers at artificially inflated prices to generate illicit profits for the participants in the scheme.

19. Hollywood Offering: On June 20, 1996, Hollywood filed with the Commission a registration statement and preliminary prospectus for the Hollywood IPO. Euro served as the lead underwriter for the Hollywood IPO. As of September 10, 1996, the Hollywood registration statement

was deemed effective. On September 19, 1996, the Hollywood IPO was completed. In the Hollywood IPO, Hollywood offered 800,000 shares of common stock at \$5.00 per share and 1,600,000 warrants at \$0.25 per warrant. A Hollywood warrant entitled the holder to purchase one share of Hollywood common stock for \$6.50.

20. In the Hollywood IPO, Euro distributed at least 671,250 Hollywood warrants at \$0.25 per warrant among four nominee accounts: Verdun Investments Ltd. Corp., Fintry Investments Ltd. Corp., Monte International U.S.A. Inc., and High Point Management Ltd. Euro controlled these nominee accounts. Melillo and others at Euro were the beneficial owners of the warrants distributed to the nominee accounts.

21. In connection with the Hollywood IPO, Melillo and others at Euro sold Hollywood warrants from the nominee accounts to Euro customers at artificially inflated prices. As a result, the nominee accounts generated at least \$2.3 million in profits from the sale of Hollywood warrants. Melillo received at least \$485,000 in proceeds from the sale of Hollywood warrants through the nominee accounts.

22. EVC Offering: Concurrent with the Hollywood IPO, Hollywood registered a separate offering of 1,400,000 shares of Hollywood common stock and 2,000,000 Hollywood warrants on behalf of EVC (the "EVC Offering").

23. In connection with the EVC Offering, Arbel agreed with Melillo to sell Hollywood securities from EVC to Euro at a discount, while concealing the discount from Hollywood shareholders and the public. Pursuant to their agreement, between October 1996 and February 1997, Euro purchased Hollywood securities from EVC at market prices. As a result, Euro's purchases of Hollywood securities from EVC were reported to the market at market

prices. Pursuant to their agreement, however, Arbel subsequently transferred to Euro a portion of the proceeds equal to the amount of the discount to which they had previously agreed.

24. Melillo and others at Euro used the funds received from Arbel to pay the undisclosed commissions to Euro brokers for their sale of Hollywood securities to customers.

25. Euro subsequently sold the Hollywood securities purchased from EVC to Euro customers at the artificially inflated market prices without disclosure of the arrangement between EVC and Euro described above.

26. As a result of Arbel's sales of Hollywood securities through EVC, Arbel generated at least \$5.6 million in proceeds.

Fraudulent Sales Practices

27. Under Melillo's supervision, Euro generated demand for Hollywood securities, and thereby artificially inflated the price at which Hollywood securities were sold to the public, through various fraudulent means.

28. Euro succeeded in causing Hollywood securities to sell at artificially inflated prices. On September 19, 1996, immediately after the IPO, aftermarket trading in Hollywood securities began at \$10.75 per share for common stock and \$5.50 per warrant. In the first three days of trading, the price of Hollywood securities increased to \$11.50 per share for common stock and \$6.75 per warrant.

29. Undisclosed commissions: In order to motivate Euro brokers to sell Hollywood securities, Melillo caused Euro to pay the Euro brokers excessive commissions based on their sales of Hollywood securities. These excessive commissions were not disclosed to customers to whom Euro securities were offered and sold.

30. Tie-in sales: In order to receive securities in the Hollywood IPO, in some cases Euro brokers required customers to agree to purchase Hollywood securities in the aftermarket.

By the use of such "tie-in" arrangements, Euro created artificial demand in the aftermarket for Euro securities.

31. Unauthorized trades: Euro brokers purchased Hollywood securities for customer accounts without authorization from the customers. The unauthorized trades took various forms.

32. In some cases, Euro brokers used cash balances in customer accounts to purchase Hollywood securities without authorization from the customers. In some cases, customers provided money to purchase Hollywood securities in the IPO, but instead Euro brokers used the customers' funds to purchase Hollywood securities in the aftermarket, at an artificially inflated price, without authorization from the customer.

33. In some cases, in which customers had already purchased Hollywood common stock, Euro brokers sold the Hollywood common stock in the customer account and used the funds to purchase Hollywood warrants without authorization from the customer. Sales of Hollywood warrants yielded higher profits for Euro and its principals than sales of Hollywood stock.

34. Cross trades: Euro brokers conducted "cross trades" in Hollywood securities between customer accounts. In a cross trades, Euro brokers induced customers who owned Hollywood securities to sell the Hollywood securities (by, for example, conveying negative information regarding Hollywood), while simultaneously inducing another customer to purchase Hollywood securities at a higher price (by, for example, conveying false or misleading positive information regarding Hollywood). Through such cross trades, Euro and its principals profited through the spread between the bid and ask, and the broker received undisclosed compensation.

35. Melillo, along with others at Euro, controlled the price of Hollywood securities. Melillo, along with others at Euro, determined the price at which to sell Hollywood securities to

the public. Melillo, along with others at Euro, also controlled the spread between Euro's bid and ask prices for Hollywood securities. In order to generate greater profits from cross trades, at various times Melillo caused Euro to maintain the spread between Euro's bid and ask prices for Hollywood securities at one dollar.

36. Failure to execute sell orders: Melillo maintained a "no net sales" policy with respect to Hollywood securities, in which Euro would not execute a customer order to sell Hollywood securities unless the broker had an offsetting buy order. Melillo enforced the no net sales policy by refusing to approve sell orders unless the broker had an offsetting buy order, and by rebuking brokers who attempted to execute sell orders. As a result, Euro did not honor customer requests to sell Hollywood securities.

37. Melillo implemented the fraudulent sales practices to keep the price for Hollywood's securities artificially high while he sold both his and Arbel's Hollywood securities to the investing public.

CLAIMS FOR RELIEF

FIRST CLAIM FOR RELIEF

Violation of Section 17(a) Of the Securities Act and Section 10(b) Of the Exchange Act and Rule 10b-5 Thereunder (against the Defendants)

38. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 37 above.

39. Hollywood common stock and warrants are "securities" under Section 2(1) of the Securities Act, 15 U.S.C. § 77b(1), and Section 3(a)(10) of the Exchange Act, 15 U.S.C. § 78c(a)(10).

40. The Defendants, directly or indirectly, singly or in concert, in the offer or sale, or in connection with the purchase or sale, of securities by use of the means or instruments of transportation or communication in, or the means or instrumentalities of, interstate commerce, or of the mails: (a) have been employing, and are about to employ, devices, schemes and artifices to defraud; (b) have been obtaining, and are about to obtain, money or property by means of, or otherwise have been making, and are about to make, untrue statements of material fact or omissions to state material facts necessary to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) have been engaging, and are about to engage, in transactions, acts, practices and courses of business which operated as a fraud or deceit upon purchasers of securities and other persons.

41. Defendants knowingly or recklessly engaged in the deceptive scheme described above.

42. As part of and in furtherance of this violative conduct, as alleged above, the Defendants made misrepresentations and omissions in connection with the offer and sale of Hollywood's securities.

43. The above-described conduct, misrepresentations and omissions by the Defendants were material.

44. The Defendants knew, or were reckless in not knowing, that the misrepresentations and omissions alleged above were false or misleading.

45. By reason of the foregoing, the Defendants, directly or indirectly, singly or in concert, have violated, are violating, are about to violate, and, unless permanently enjoined, will continue to violate Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), and Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10-5.

SECOND CLAIM FOR RELIEF

Violation of Section 10(b) of the Exchange Act and Rule 10b-6 Thereunder (against Melillo)

46. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 45, above.

47. From August 1 through September 19, 1996, before Euro's participation in the Hollywood IPO was complete and before the Hollywood IPO had come to rest with the investing public, Melillo, directly or indirectly, by use of the means or instrumentalities of interstate commerce or of the mails, solicited aftermarket purchases of Hollywood securities.

48. As part of and in furtherance of this violative conduct, as described above, prior to the completion of the distribution of the Hollywood IPO, Melillo attempted to induce and did induce customers to purchase such securities that were the subject of such distributions by pre-selling and tie-ins.

49. By reason of the foregoing acts, practices, and courses of business, Melillo has directly or indirectly, singly or in concert, violated Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-6 thereunder, 17 C.F.R. § 240.10b-6.

THIRD CLAIM FOR RELIEF

Arbel Aided And Abetted Violations Of Section 10(b) Of the Exchange Act And Rule 10b-5 Thereunder

50. In the alternative to the Commission's first claim for relief against Arbel that he violated Section 10(b) of the Exchange Act and Rule 10(b) thereunder, the Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 37, above.

51. As described above, Melillo engaged in a fraudulent scheme to sell Hollywood securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. Arbel

knew, or was reckless in not knowing, about the fraudulent scheme to sell Hollywood securities, and, through the conduct described above, knowingly or recklessly substantially assisted in the commission of the fraudulent scheme.

52. By reason of the foregoing, under Section 20(e) of the Exchange Act, 15 U.S.C. § 78t(e), Arbel aided and abetted violations of 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, and unless enjoined is likely to aid an abet violations of such provisions again.

RELIEF SOUGHT

WHEREFORE, the Commission respectfully requests that this Court enter a final judgment:

A. Permanently restraining and enjoining the Defendants from violating, directly or indirectly, Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), and 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;

B. Permanently restraining and enjoining Melillo from violating, directly or indirectly, Rule 101 of Regulation M, 17 C.F.R. § 240.101;

C. Ordering the Defendants to disgorge all ill-gotten profits, gains, income and benefits, derived directly or indirectly, as a result of their violative conduct, plus prejudgment interest on that amount;

D. Ordering the Defendants to pay civil monetary penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d); and

E. Ordering such other and further relief as the Court deems necessary and appropriate.

Dated: New York, New York
September 4, 2001

Respectfully submitted,

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