

UNITED STATES DISTRICT COURT  
DISTRICT OF COLUMBIA

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

Plaintiff,

v.

SHELDON KRAFT  
42 Downing Street  
New York, NY 10014,

Defendant.

CASE NUMBER 1:98CV00095  
JUDGE: Gladys Kessler  
DECK TYPE: Civil General  
DATE STAMP: 01/14/98

COMPLAINT

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

SUMMARY

1. This market manipulation case addresses the misconduct of Defendant Sheldon Kraft ("Kraft"), a stock broker who acted as the principal facilitator for Charles O. Huttoe ("Huttoe"), formerly the Chairman and CEO of Systems of Excellence, Inc. ("SOE"), in rigging the market for the securities of that company. Kraft met Huttoe in early 1995, and thereafter guided Huttoe throughout the manipulation. When SOE's original software business collapsed, Kraft found a high-tech video teleconferencing business to put into the SOE shell so as to make it attractive to investors. Thereafter, Kraft introduced Huttoe to his "total world" -- Kraft's network of brokers, market makers, and stock touters -- who Huttoe then bribed with

stock to manipulate the price of SOE. As a result of Kraft's introductions, Huttoe entered into such arrangements with five stock promoters who were to push sales of SOE stock to retail brokerage customers; three stock touters who would disseminate recommendations to purchase SOE via mass media and other means, and two traders at market making broker-dealer firms who agreed to support the price of SOE. As a result of these and other manipulative activities, SOE's stock price rose from pennies to \$4 9/16 per share in just a few months. Finally, Kraft directed Huttoe in establishing nominee accounts through which Kraft secretly sold more than 6.3 million shares of SOE stock for Huttoe into the inflated market.

2. For his part in the SOE fraud, Kraft demanded compensation in the form of direct cash payments from Huttoe and free trading shares of SOE stock that he had Huttoe issue in the names of his nominees. Kraft also obtained kickbacks from the persons he introduced to Huttoe in the form of cash or a portion of the SOE stock Huttoe had supplied them in exchange for carrying out their roles in the manipulation. Kraft sold the free SOE stock he got from Huttoe and others into the inflated market through nominee accounts in the United States and Canada. In addition, in exchange for directing the illegal sales of SOE stock in Huttoe's nominee accounts, Kraft received his ordinary commissions, and a percentage of the proceeds from the sale of stock through Huttoe's nominee accounts. In total, Kraft made illegal profits of \$3,193,337 from his role in the SOE scheme.

3. By engaging in this conduct, defendant directly or indirectly violated, is violating, and unless restrained will violate the securities registration and antifraud provisions of the federal securities laws, specifically, Sections 5 and 17(a) of the Securities Act of 1933 ("Securities Act")

[15 U.S.C. §§ 77e and 77q], Section 10(b) of the Securities and Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)], and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].

### JURISDICTION

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

5. 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)].

6. 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

7. Sheldon Kraft, age 46, has been a stock broker employed by various brokerage firms located in the New York City area since about 1984. During the time at issue Kraft was employed by the brokerage firms of Commonwealth Associates and then M.H. Meyerson & Co., Inc. In September 1996, Kraft resigned from M.H. Meyerson and became associated with another brokerage firm, which he has since left.

## OTHER INDIVIDUALS AND ENTITIES

8. Systems of Excellence, Inc. ("SOE"), which was incorporated in Florida in 1989, maintained its offices in Coral Gables, Florida and McLean, Virginia. It purportedly was engaged in manufacturing and distributing video teleconferencing equipment. SOE's stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act. Until the Commission suspended trading in SOE's stock on October 7, 1996, its stock was quoted on the OTC Bulletin Board. SOE is in bankruptcy liquidation proceedings.

9. Charles O. Huttoe, age 50, was formerly the Chairman and Chief Executive Officer 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 and others and obtained preliminary orders freezing his assets and prohibiting ongoing violations of the federal securities laws. Huttoe subsequently pleaded guilty to a criminal information charging him with one count of securities fraud and one count of money laundering arising from his conduct at SOE. On January 31, 1997, Huttoe was sentenced to a prison term of 46 months, which he is now serving.

10. Barclay Davis ("Davis"), age 50, is a stock promoter based in Las Vegas, Nevada, and is the President and sole employee of World Syndicators, Inc. On December 22, 1997, in an action styled SEC v. Davis and World Syndicators, Civ. Act. No. 97-03056 (GK) (D.D.C.), the Commission filed an action against Davis and World Syndicators based on their roles in the manipulation of SOE and two other issuers. That same day Davis pleaded guilty to one count of conspiracy to commit securities fraud and one count of money laundering arising from the manipulation of the securities of one of those entities.

11. Lynda Lou Kane-Kraft, aka Lynda Lou Kane, aka Lynda Lou Kraft ("Kane") is the wife of Kraft. Kane was named as a relief defendant in SEC v. Huttoe et al. because Kraft, as part of the illegal scheme, had Huttoe issue shares of SOE stock in her name and disburse cash payments to her or to LuLu Productions, Inc., an entity Kraft controls.

## **THE FRAUDULENT SCHEME**

### **Background**

12. Huttoe, Kraft, and others engaged in a "pump and dump" market manipulation of the stock of SOE. The stock sold as part of that manipulation was supplied through a massive unregistered offering that ultimately included approximately 42 million unrestricted, free-trading SOE shares that were purportedly registered on Form S-8 Registration Statements. Those shares were issued to, among others, Huttoe's nominees, Kraft's nominees, and others who carried out parts of the manipulation.

13. In early 1995, Huttoe met Kraft, who had been described to Huttoe as a person who could market penny stocks to other brokers and investors. At the time, Kraft was a registered representative with Commonwealth Associates, a broker-dealer located in New York City. SOE was in the process of losing its only operating business -- a software application to be used in dental offices. Huttoe approached Kraft in an attempt to salvage the company. In early 1995, Kraft agreed to assist Huttoe and introduce him and SOE to his "total world" -- Kraft's network of brokers and "public relations" persons -- in order to promote investor interest in SOE.

### **Kraft Finds Video Teleconferencing Business To Put Into SOE Shell**

14. At the beginning of their relationship, Kraft advised Huttoe that, in light of the lack of any real promise in the dental software business, he should treat SOE as a shell and “find something to put into it.” Kraft then introduced Huttoe to an acquisition candidate, ICMX Federal Systems, Inc. (“ICMX”), which had come to his attention from a customer that had a securities account with him. ICMX was a small company which purportedly manufactured video teleconferencing equipment that claimed to have a breakthrough technology. ICMX, which had revenue from sales of product of approximately \$123,000 for its prior year, was in need of financing.

15. In November 1995, Kraft arranged a meeting in Virginia between ICMX personnel and Huttoe. In that meeting, Kraft suggested that the parties enter into an agreement pursuant to which SOE would acquire ICMX for 10 million shares, and a letter of intent was executed by the parties on December 7, 1995. On December 26, 1995, while negotiations were continuing, SOE announced those discussions with ICMX and falsely claimed that ICMX had already booked \$10 million in sales for 1996. The acquisition of ICMX ultimately was consummated in February 1996.

### **Kraft Promotes SOE In The OTC Market**

16. With SOE having a high-tech product as a result of the ICMX acquisition, Kraft began to hype SOE to his “public relations network,” which included brokers, market makers, stock promoters, public relations firms, and persons who touted stock on the internet, radio, and telephone. In order to accomplish this, Kraft falsely claimed to his “network” that there were, among other things, pending contracts and orders for SOE’s product from embassies, and that

SOE had secret contracts with United States intelligence agencies, which Kraft referred to as the "black coats." Kraft repeatedly represented, with no reasonable basis, that SOE's stock was going to "go to \$10 per share."

**Kraft Introduces Huttoe To A Stock Promoter,  
Who In Turn Introduces Huttoe To Brokers To Push SOE Stock**

17. In 1995, Kraft and another individual (" Stock Promoter A"), formed a company to promote the securities of issuers, generally in exchange for shares of the issuer. Pursuant to their deal, Kraft and Stock Promoter A were each entitled to one-half of what was received from issuers.

18. Kraft introduced Huttoe to Stock Promoter A. Thereafter, Huttoe and Stock Promoter A, "traveling as a team," went to broker-dealers with which Stock Promoter A had contacts in order to promote SOE. As a result of Stock Promoter A's introductions, Huttoe struck deals with certain stock brokers pursuant to which Huttoe provided the brokers with SOE shares to induce them to "push" SOE stock to their retail customers. In addition, Huttoe opened accounts with one of the broker-dealers in the name of various nominees through which he secretly sold SOE shares. For making the introductions, Huttoe provided Stock Promoter A with 500,000 SOE shares, 250,000 of which Stock Promoter A transferred to a Kraft nominee account pursuant to their arrangement.

**Kraft Introduces Huttoe To Market Makers Who Agree To Support SOE Stock**

19. In late 1995 or early 1996, Kraft introduced Huttoe to a trader at a broker-dealer firm that made a market in SOE stock ("Trader A"). Huttoe and Trader A entered into an arrangement pursuant to which Trader A agreed to support the price of SOE stock through his

trading on behalf of his firm, not “lean on it” or short the stock, and recommend SOE stock to others, in return for which Trader A received SOE stock. In total, Trader A received 550,000 shares of SOE stock that purported to be registered on Form S-8 Registration Statements, and that were issued in the name of a family member of Trader A. In addition, Huttoe transferred from one of his nominee accounts an additional 200,000 SOE shares to an account in Trader A’s family member’s name. Trader A sold all 750,000 shares he received as part of the scheme for proceeds of \$425,951. As a kickback for making the introduction to Huttoe, Trader A paid Kraft \$204,000, which Kraft deposited into one of his Canadian broker-dealer nominee accounts in his wife’s name.

20. Kraft also introduced Huttoe to another trader of SOE stock at another broker-dealer that made a market in SOE (“Trader B”). Huttoe agreed to give Trader B 25,000 shares of SOE stock in the name of a nominee, in return for which Trader B agreed not to short SOE stock.

#### **Kraft Introduces Huttoe to Professional Stock Touters**

21. In or about April 1995, Kraft introduced Huttoe to a radio talk show host, who Kraft knew took stock from issuers that he promoted on air (“Stock Touter A”). After setting up a conference call, Kraft left Huttoe and Stock Touter A alone to strike a deal pursuant to which the Stock Touter A agreed to promote SOE on the radio, in return for which he received 450,000 free trading shares of SOE.

22. Then, soon after SOE and ICMX signed the letter of intent in December 1995, Trader A told Kraft that if SGA Goldstar Research, Inc., which disseminated an electronic



newsletter, wrote about SOE, the price of the stock would triple.<sup>1</sup> Trader A told Kraft that SGA Goldstar would not take Kraft's call, but offered to call a stock promoter who was a "partner" with SGA Goldstar's principal, Theodore Melcher, Jr. ("Melcher"), on Kraft's behalf to arrange a meeting (that stock promoter is hereinafter referred to as "Stock Promoter B").

23. After the introduction, Kraft, Stock Promoter B, and Huttoe participated in a conference call to talk about SOE. Huttoe then entered into an arrangement with Melcher and Stock Promoter B pursuant to which SGA would write positively about SOE and Stock Promoter B would also "bring in buying" for SOE stock through a network of brokers in the U.S. and Great Britain in exchange for 1.8 million free trading SOE shares. Huttoe further agreed to provide Melcher and another employee of SGA Goldstar, Shannon Terry, with 250,000 and 150,000 shares, respectively, of SOE stock in their and nominee names, all of which also purported to have been registered on Form S-8 Registration Statements. Soon after Huttoe made the deal with Stock Promoter B, Melcher and Terry, SGA Goldstar began to tout SOE in its newsletter.

24. Kraft also introduced Huttoe to another individual who ran a tout firm that investors could telephone to get recommended stock picks ("Stock Touter B"). Pursuant to an agreement worked out between Huttoe and Stock Touter B, the tout firm agreed to recommend SOE to investors for which it received 150,000 free trading SOE shares. Those shares were issued in the name of a nominee and also purported to be registered on Form S-8 Registration Statements. For making the introduction, Stock Touter B transferred 75,000 of those shares to

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<sup>1</sup> SGA Goldstar and its two principals are defendants in the related case, SEC v. Huttoe, et al.

one of Kraft's nominee accounts. Kraft sold those shares into the market for proceeds of \$188,053.

**Kraft Introduces Huttoe To Penny Stock Promoter Barclay Davis and Other Promoters**

25. In or about May 1996, Kraft met Barclay Davis ("Davis"), who was described to Kraft as someone with a "tremendous broker network" that included a now defunct New Jersey broker-dealer with which he was a "partner." According to Kraft, the broker-dealer was a "major player" with a retail marketing operation of approximately 20 retail branches. In or about July or August 1996, Kraft set up a conference call between Huttoe and Davis, who bragged about his broker network. Soon after, Huttoe and Davis entered into an arrangement pursuant to which Davis would "push" the stock of SOE by bringing SOE to the broker-dealer in exchange for 600,000 shares of free trading SOE stock which purported to be registered on Form S-8 Registration Statements in the name of World Syndicators, Inc. Davis agreed to give Kraft 300,000 of those shares for introducing him to Huttoe, although the shares were never transferred.

26. Kraft also introduced Huttoe to a third stock promoter, from British Columbia, Canada ("Stock Promoter C"). Stock Promoter C, in turn, introduced Huttoe to a fourth stock promoter, who also is a British Columbian stock promoter ("Stock Promoter D"). Huttoe entered into arrangements with Stock Promoter C and Stock Promoter D pursuant to which they promoted SOE stock to brokers and investors in return for which they received 100,000 shares and 250,000 shares respectively on Form S-8 Registration Statements.

**Kraft Directs Sales From Huttoe's Nominee Accounts  
For Which He Receives a Share of Huttoe's Proceeds**

27. Beginning prior to the SOE manipulation and continuing through September 1996, Kraft was employed variously as a registered representative at Commonwealth Associates and M.H. Meyerson & Co., Inc. While at both of these firms, Kraft directed Huttoe in establishing nominee accounts through which he could secretly sell the unregistered SOE securities that Huttoe had issued to himself. Kraft suggested that Huttoe establish nominee accounts at brokerage firms to sell SOE stock, and then at those banks where the proceeds would be transferred. Because Huttoe was a principal of SOE, Kraft told Huttoe that, to avoid detection, he would have to establish nominee accounts to effect the sales.

28. Under Kraft's guidance, Huttoe established four nominee accounts at Commonwealth Associates, maintained in the name of Huttoe's mother, wife, niece, and an entity he controlled. During the period from August 1995 through February 1996, Kraft effected sales of over 2.2 million shares of SOE stock from those accounts, which generated proceeds in excess of \$1.0 million.

29. Kraft also assisted Huttoe in establishing three nominee accounts at M.H. Meyerson & Co., Inc. in the name of his mother, wife and niece. During the period from April 1996 through August 1996, Kraft effected sales of over 4.1 million shares of SOE stock from those accounts, which generated proceeds of approximately \$8.62 million.

**Kraft Received Cash and SOE Stock for Promoting  
SOE and Selling Huttoe's SOE Stock in Nominee Accounts**

30. Kraft received a total of \$3,193,337 from his work in the SOE manipulation, consisting of proceeds from the sale of his nominee's SOE stock, his percentage of the proceeds

from the sale of the stock by Huttoe's nominees, various cash payments, and his brokerage commissions. The components of that total are detailed below.

#### **Sales of SOE stock**

31. Kraft received from Huttoe a total of 1,190,000 free trading newly issued shares of SOE stock in the names of various nominees. None of those shares were registered but they were issued in free trading form because they purported to have been covered by various Form S-8 registration statements that were prepared monthly by SOE. Kraft sold that stock through accounts in the names of his nominees for a total of \$938,729. Kraft received another 475,000 shares as kickbacks from other promoters or brokers who he introduced to Huttoe. He sold those shares for a total of \$423,811. His total proceeds from the sale of SOE stock was \$1,362,540.

#### **Commissions and a Percentage of the Proceeds From the Sales of SOE's Stock by Huttoe's Nominees**

32. Kraft received standard commissions of \$19,178 on the transactions in the nominee accounts he established for Huttoe to sell his SOE shares. In addition, in exchange for directing all the illegal trading of SOE stock in Huttoe's nominee accounts, in early 1996, Kraft demanded a percentage of the proceeds from Huttoe's sales of SOE stock through Huttoe's nominee accounts, pursuant to which he ultimately received a total of \$1,350,400. At Kraft's direction, payments were made payable, by check or wire, to his wife, Lynda Lou Kane, or Kraft was paid directly in cash. The checks were sent in January, June, July and August 1996 in the amounts of \$93,000, \$100,000, \$157,400, and \$1,000,000 respectively.

### **Other Cash Payments**

33. Kraft also received directly or through his nominees numerous other payments for his role in the SOE manipulation totaling \$461,219. From April to December 1995, Huttoe wrote checks and wired funds, generally from Huttoe & Associates, Inc., Huttoe's broker-dealer, that totaled \$205,169 to Kane and \$36,050 to Kraft. Kraft also received direct cash payments in currency, totaling \$16,000, in envelopes handed to him by Huttoe on three occasions. Finally, Kraft received a cash kickback in the form of two checks totaling \$204,000 from Trader A.

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

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

34. Paragraphs 1 through 33 are hereby realleged and incorporated by reference.
35. By reason of the foregoing, defendant Kraft has violated, is violating, and unless restrained will violate 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]**

36. Paragraphs 1 through 33 are hereby realleged and incorporated by reference.

37. By reason of the foregoing, defendant Kraft directly or indirectly, has violated, is violating, and unless restrained will violate Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], and defendant Kraft 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 Kraft, and those persons in active concert or participation with him who receive actual notice by personal service or otherwise, from violating, directly or indirectly, Sections 5 and 17(a) of the Securities Act [15 U.S.C. §§ 77e and 77q], 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].

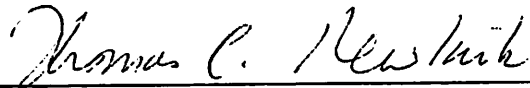
**II.**

Directing defendant Kraft 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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