Edwin H. Nordlinger (EN-6258)
Deputy Regional Director
Attorney for the Plaintiff
SECURITIES AND EXCHANGE COMMISSION
Northeast Regional Office
233 Broadway
New York, NY 10279
(646) 428-1907 (Russello)

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,	
Plaintiff,	
- against -	
VICTOR JACOBOWITZ (aka Victor Jacobs), HERMAN JACOBOWITZ (aka Herman Jacobs), JACOB JACOBOWITZ (aka Jacob Jacobs), DAVID SHAMILZADEH, and IRVIN BROWN,	**COMPLAINT**
Defendants.	

The plaintiff Securities and Exchange Commission ("Commission") alleges the following against defendants Victor Jacobowitz aka Victor Jacobs ("Victor Jacobs"), Herman Jacobowitz aka Herman Jacobs ("Herman Jacobs"), Jacob Jacobowitz aka Jacob Jacobs ("Jacob Jacobs"), David Shamilzadeh ("Shamilzadeh"), and Irvin Brown ("Brown") (collectively, "Defendants"):

SUMMARY

1. This action concerns financial fraud at Allou Healthcare, Inc. ("Allou"), a now bankrupt distributor of pharmaceuticals and health and beauty products.

2. Beginning in the 1990s and continuing through March 2003, Defendants engaged in a massive scheme to defraud Allou's lenders and public investors. Specifically, Allou had a credit facility with a group of lenders that permitted Allou to borrow funds based on Allou's accounts receivable and the value of Allou's inventory. The Defendants regularly overstated Allou's accounts receivable and inventory to borrow more funds than Allou's legitimate business merited. Simultaneously, the Defendants falsified Allou's accounting records, earnings reports, and periodic filings with the Commission by, among other things, materially overstating revenue and inventory. The Defendants conducted this scheme to enable Allou to continue operating and for their own personal enrichment.

3. For instance, Herman Jacobs, Allou's former Chief Executive Officer ("CEO"), Shamilzadeh, Allou's former President and Chief Financial Officer ("CFO"), and Brown, Allou's former de facto chief information officer, prepared false sales invoices purportedly reflecting the sale of products to customers, to increase Allou's accounts receivable and therefore to overstate Allou's revenues. Victor Jacobs, the former Chairman of Allou's Board of Directors, and Jacob Jacobs, a former Executive Vice-President, were aware of Allou's practice of falsifying invoices. In its most recent Form 10-Q filed with the Commission, Allou reported revenue of $471 million for the nine months ended December 31, 2002, and approximately $153 million, or forty-eight percent, of the actual revenue was attributable to the falsified invoices.

4. Herman Jacobs and Shamilzadeh also overstated the value of Allou's inventory to enable Allou to borrow additional funds from its lenders. Additionally, by overstating inventory, Herman Jacobs and Shamilzadeh decreased Allou's expenses by a corresponding amount, which increased Allou's net income. Herman Jacobs and Shamilzadeh could therefore manipulate earnings per share to enable Allou to report results in line with Wall Street analysts' forecasts.

Victor Jacobs and Jacob Jacobs again were aware of these efforts to overstate inventory and to manipulate net income. By the time this scheme was uncovered in March 2003, Allou had recorded approximately $60 million of inventory that did not exist.

5. Finally, Victor Jacobs siphoned funds from Allou for the Jacobs family's personal use. For instance, between January 2002 and March 2003, Allou made approximately $179 million of payments to entities affiliated with the Jacobs family, purportedly for the purchase of inventory. A significant portion of these payments, however, were for nonexistent inventory.

VIOLATIONS OF FEDERAL SECURITIES LAWS

6. Victor Jacobs, directly or indirectly, singly or in concert, has engaged in acts, practices and courses of business that constitute violations of Section 17(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. § 77q(a), Sections 10(b) and 13(b)(5) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§ 78j(b) and 78m(b)(5), and Rules 10b-5, 13b2-1, and 13b2-2, 17 C.F.R. §§ 240.10b-5, 240.13b2-1, and 240.13b2-2; and has aided and abetted violations of Sections 13(a) and 13(b)(2)(A)&(B) of the Exchange Act, 15 U.S.C. §§ 78m(a) and 78m(b)(2)(A)&(B), and Rules 12b-20, 13a-1, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13.

7. Herman Jacobs, directly or indirectly, singly or in concert, has engaged in acts, practices and courses of business that constitute violations of Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), Sections 10(b) and 13(b)(5) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78m(b)(5), and Rules 10b-5, 13a-14, 13b2-1, and 13b2-2, 17 C.F.R. §§ 240.10b-5, 240.13a-14, 240.13b2-1, and 240.13b2-2; and has aided and abetted violations of Sections 13(a) and 13(b)(2)(A)&(B) of the Exchange Act, 15 U.S.C. §§ 78m(a) and 78m(b)(2)(A)&(B), and Rules 12b-20, 13a-1, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13.

8. Jacob Jacobs, directly or indirectly, singly or in concert, has engaged in acts, practices and courses of business that constitute 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, 17 C.F.R. § 240.10b-5; and has aided and abetted violations of Section 13(a) of the Exchange Act, 15 U.S.C. §§ 78m(a), and Rules 12b-20 and 13a-1, 17 C.F.R. §§ 240.12b-20 and 240.13a-1.

9. Shamilzadeh, directly or indirectly, singly or in concert, has engaged in acts, practices and courses of business that constitute violations of Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), Sections 10(b) and 13(b)(5) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78m(b)(5), and Rules 10b-5, 13a-14, 13b2-1, and 13b2-2, 17 C.F.R. §§ 240.10b-5, 240.13a-14, 240.13b2-1, and 240.13b2-2; and has aided and abetted violations of Sections 13(a) and 13(b)(2)(A)&(B) of the Exchange Act, 15 U.S.C. §§ 78m(a) and 78m(b)(2)(A)&(B), and Rules 12b-20, 13a-1, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13.

10. Brown, directly or indirectly, singly or in concert, has engaged in acts, practices and courses of business that constitute violations of Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), Sections 10(b) and 13(b)(5) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78m(b)(5), and Rules 10b-5 and 13b2-1, 17 C.F.R. §§ 240.10b-5 and 240.13b2-1; and has aided and abetted violations of Sections 13(a) and 13(b)(2)(A)&(B) of the Exchange Act, 15 U.S.C. §§ 78m(a) and 78m(b)(2)(A)&(B), and Rules 12b-20, 13a-1, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13.

JURISDICTION AND VENUE

11. The Commission brings this action pursuant to Section 20(b) of the Securities Act, 15 U.S.C. § 77t(b), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d), and seeks permanent injunctions to restrain and enjoin the Defendants from engaging in the acts, practices,

and courses of business alleged herein. The Commission also seeks an order requiring the Defendants to disgorge their ill-gotten gains and to pay prejudgment interest thereon. The Commission also seeks civil monetary penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3), against the Defendants. Finally, the Commission seeks an order, pursuant to Section 20(e) of the Securities Act, 15 U.S.C. § 77t(e), and Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 78u(d)(2), prohibiting the Defendants from serving as officers or directors of a public company.

12. The 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.

13. Venue lies in this District 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. For instance, Allou maintained its principal place of business in Brentwood, New York and had warehouse facilities in Brooklyn, New York. Additionally, Victor Jacobs, Herman Jacobs, and Jacob Jacobs reside in Brooklyn, New York.

14. Defendants, directly or indirectly, have each 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 AND RELEVANT ENTITY

Defendants

15. Victor Jacobs is 72 years old and resides in Brooklyn, New York. Victor Jacobs served as the Chairman of Allou's Board of Directors from 1985 to May 2003.

16. Herman Jacobs is 43 years old and resides in Brooklyn, New York. Herman Jacobs served as Allou's CEO from July 2000 to April 2003, and as a director from 1985 to May 2003. Herman Jacobs is Victor Jacobs's son.

17. Jacob Jacobs is 41 years old and resides in Brooklyn, New York. Jacob Jacobs served as Executive Vice President of Allou from July 2000 to April 2003, and as a director from 1985 to May 2003. Jacob Jacobs, also known as Jack Jacobs, is Victor Jacobs's son.

18. Shamilzadeh is 57 years old and resides in New York, New York. Shamilzadeh served as Allou's President from July 2000 to April 2003. He served as Allou's CFO from 1990 to April 2003. He also served as Allou's principal accounting officer from September 2001 to April 2003. Additionally, Shamilzadeh served as a director from July 1989 to April 2003.

19. Brown is 43 years old and resides in Monsey, New York. Brown worked at Allou from at least 1991. Brown was in charge of Allou's information technology department, and was therefore Allou's de facto chief information officer.

Relevant Entity

20. Allou was a distributor of pharmaceuticals and health and beauty products. Allou is a Delaware corporation with headquarters located in Brentwood, New York. Until September 2002, Allou was known as Allou Health & Beauty Care, Inc. Allou operated primarily through the following wholly owned subsidiaries: Allou Distributors, Inc.; M. Sobol, Inc.; Direct Fragrances, Inc.; and Stanford Personal Care Manufacturing, Inc. Allou maintained warehouse

facilities in Brooklyn, New York, Miami, Florida, and Saugus, California. Prior to May 2003, Allou's common stock traded on the American Stock Exchange, and Allou filed periodic reports with the Commission pursuant to Section 13(a) of the Exchange Act. In April 2003, Allou filed for bankruptcy, and a bankruptcy trustee was subsequently appointed. The trustee is liquidating the corporation's assets.

Facts

21. In 1985, the Jacobs family purchased Allou, which was then privately held.

22. In 1989, Allou conducted an initial public offering of stock.

23. Beginning in September 2001, Congress Financial Corp. ("Congress Financial") and a syndicate of banks provided operating funds to Allou pursuant to a revolving credit facility.

24. According to Allou's periodic filings with the Commission, Allou entered into the credit facility to finance inventory and accounts receivable, and Allou granted Congress Financial and other lenders a security interest in the inventory.

25. Further, Victor, Herman, and Jacob Jacobs each personally guaranteed a portion of Allou's borrowings.

26. The credit facility provided that Allou could draw funds based on accounts receivable and inventory balances that Allou reported to Congress Financial. In particular, Allou could borrow up to eighty-five percent of the value of accounts receivable and sixty percent of the value of inventory.

27. Allou provided Congress Financial and the other lenders with frequent reports detailing Allou's current accounts receivable and inventory, and the lenders advanced funds to

Allou based on those reports. As will be discussed below, Allou management regularly falsified those reports.

**The Defendants Fraudulently
Overstated Allou's Revenue By Falsifying Invoices**

28. In order to obtain more funds from Congress Financial and the other lenders than Allou otherwise would have been able to obtain, Herman Jacobs devised a scheme to overstate Allou's accounts receivable.

29. Herman Jacobs regularly prepared falsified sales invoices purportedly reflecting the sale of pharmaceuticals and health and beauty products.

30. For instance, Herman Jacobs and Brown would prepare false invoices reflecting purported sales to Allou's regular customers. In these cases, Allou would apply customer payments against these false invoices to make it appear that the customer had also paid the false invoices.

31. Alternatively, Herman Jacobs and Brown would prepare false invoices reflecting purported sales to entities that appeared to be independent customers but were, in fact, entities the Jacobs family controlled. Allou would transfer funds to these entities, and the entities would then recycle the funds back to Allou to reflect payments on the invoices.

32. The false invoices would identify the salesperson responsible for the sale as "salesman no. 2." In fact, there was no "salesman no. 2" at Allou. Rather, the use of "salesman no. 2" was simply a means for Herman Jacobs and Shamilzadeh to keep track of the false invoices.

33. Brown created password protected computer files to store the falsified invoices. Only Herman Jacobs and Brown could access those computer records.

34. At Herman Jacobs's direction, Shamilzadeh recorded the falsified invoices as sales on Allou's accounting books and records.

35. The fictitious sales reflected by the falsified invoices were included in Allou's publicly reported quarterly and annual financial results, and were reflected in the audited financial statements contained in Allou's periodic filings with the Commission.

36. Victor Jacobs received printouts listing the falsified invoices and associated sales. After reviewing the printouts, Victor Jacobs gave Shamilzadeh checks from entities the Jacobs family controlled, and directed Shamilzadeh to use the checks to pay invoices reflecting sales to Jacobs family entities. This made the sales reflected by the falsified invoices appear to be legitimate sales when, in fact, no such transactions had occurred.

37. On various occasions, Shamilzadeh discussed the falsified invoices and related accounts receivable with Jacob Jacobs, who was in change of purchasing for Allou's fragrance and pharmaceutical units, and thus was aware of Allou's actual sales and inventory.

38. During the period from January 2002 to March 2003, Allou recorded approximately $220 million of sales from the falsified invoices.

39. Herman Jacobs, Shamilzadeh, and Brown also prepared false shipping documents to conceal the fact that the invoices were falsified.

40. Shamilzadeh then provided the falsified shipping documents to Allou's auditors during the audit of Allou's March 31, 2002 financial statements to make it appear that Allou had shipped the products covered by the falsified invoices.

41. Victor Jacobs was aware that falsified shipping documents were being provided to the auditors.

The Defendants Manipulated Allou's Aged Accounts Receivable To Appear Current, and This Resulted in Understated Expenses

42. Allou's revolving credit facility with Congress Financial and the other lenders generally provided that Allou could only borrow funds for current invoices, i.e., invoices less than sixty days old.

43. In order for Allou to borrow additional funds from these lenders, Shamilzadeh, Herman Jacobs, and Brown took efforts to make aged invoices appear current.

44. For instance, in or about 1991, Shamilzadeh suggested using Allou's new computer to employ a "dual system" to make aged invoices appear current without manually altering the invoices. The dual system would automatically, and falsely, convert stale invoices to current invoices without the knowledge of either the customer or Allou's trade creditors.

45. Herman Jacobs approved of the idea, and Brown developed a computer program to track the converted invoices.

46. Only Herman Jacobs and Brown had access to the computer program that converted the invoices.

47. Victor Jacobs and Jacob Jacobs were aware that Allou was maintaining a second set of books to keep track of the converted invoices.

48. Allou continued to maintain two sets of books until March 2003.

49. During fiscal years 2002 and 2003, Allou provided accounts receivable schedules to Congress Financial and the other lenders that typically listed approximately $125 million of accounts receivable. Approximately $4 million of the $125 million were aged receivables, but falsely characterized as being current.

50. Thus, because Allou could borrow up to 85% of the value of its accounts receivable, Allou was able to obtain approximately $3.4 million of additional cash flow.

51. Additionally, by characterizing stale accounts receivable as current, Allou did not have to recognize an allowance for doubtful accounts expense for those invoices.

52. By failing to recognize this expense, Allou understated expenses and overstated net income in its periodic earnings reports and in its financial statements filed with the Commission during fiscal years 2002 and 2003.

Victor Jacobs Transferred Allou Funds to Entities Affiliated with the Jacobs Family

53. From at least April 2001 through March 2003, Allou overstated inventory on its financial books and records.

54. During the period from January 2002 to March 2003, Victor Jacobs directed Allou to make approximately $179 million of payments to entities affiliated with the Jacobs family purportedly for the purchase of inventory.

55. At Victor Jacobs's direction, Allou made a significant portion of the payments for nonexistent inventory.

56. Victor Jacobs used those payments as a means to siphon funds from Allou for the Jacobs family's personal use.

By Overstating Inventory, the Defendants Manipulated Allou's Net Income and Earnings Per Share

57. Allou overstated inventory for several reasons. For instance, by overstating inventory, Allou was able to manipulate net income in order to hit Wall Street analysts' earnings projections. Allou was also able to borrow additional funds from Congress Financial and the other lenders under Allou's credit facility.

58. Shamilzadeh regularly provided Wall Street analysts with forecasts of Allou's quarterly net income and earnings per share.

59. At the end of a quarter, Shamilzadeh would make a rough calculation of Allou's actual net income and earnings per share for the quarter, and he would compare that figure with the forecast he had provided to Wall Street. If the forecast exceeded Shamilzadeh's calculation, he would calculate the shortfall in net income, and determine how much to reduce Allou's expenses for the quarter, which would increase net income, to achieve the earnings forecast.

60. Shamilzadeh would then inform Herman Jacobs of the income shortfall.

61. Herman Jacobs would increase the value of inventory on Allou's books and records, thereby reducing Allou's expenses for the quarter. Specifically, Herman Jacobs increased either the amount of an inventory item or the item’s cost. Doing this reduced expenses by a corresponding amount because Allou calculated cost of goods sold by taking the opening inventory balance, adding purchases during the period, and subtracting the ending inventory balance. Thus, increasing Allou's ending inventory valuation simultaneously decreased Allou's cost of goods sold, which are expenses, and therefore increased net income. In this manner, Allou was able to overstate net income and earnings per share.

62. Allou would then publicly report the false net income and earnings per share.

63. On January 7, 2002, CBS Marketwatch noted that Allou's stock price jumped seventeen percent after Shamilzadeh said in an interview that he was "'extremely comfortable' with Wall Street expectations for earnings of 86 to 88 cents a share in fiscal 2002." The article also noted that Allou expected double-digit earnings growth for fiscal year 2003. What Shamilzadeh had not disclosed, however, was that Allou would be able to report such positive results only because he and Herman Jacobs were manipulating Allou's earnings per share.

64. Victor Jacobs and Jacob Jacobs participated in discussions concerning overstating Allou's inventory to increase reported net income and earnings per share.

65. As a result of Victor Jacobs's bogus purchases of nonexistent inventory and the amounts Herman Jacobs and Shamilzadeh had falsified, during the period April 2001 through March 2003, Allou overstated the value of inventory reported on its financial statements that were included in its Forms 10-K and 10-Q by at least $60 million.

66. Finally, as discussed above, Allou could draw funds under its credit facility with Congress Financial and the other lenders based on its inventory balances.

67. By overstating inventory for the period April 2001 through March 2003, Allou was able to borrow additional funds under the credit facility.

Allou's Public Earnings Reports and Periodic Filings with the Commission Were Materially Misleading

68. As a result of the conduct described above, Allou's financial statements contained in its Forms 10-K and 10-Q filed during the period from at least 2002 and continuing until 2003 were materially false and misleading.

Allou Materially Overstated Revenue and Income for the Fiscal Year Ended March 31, 2002

69. On July 1, 2002, Allou issued a press release announcing financial results for fiscal year 2002, which ended March 31, 2002. In this press release, Allou reported annual revenue of $564 million and net income of $6.6 million, or earnings of $0.91 per share.

70. The July 1 press release also announced fourth quarter revenue of $141 million, and net income of $2.1 million, or earnings of $0.24 per share.

71. On July 15, 2002, Allou filed with the Commission its Form 10-K for the fiscal year ended March 31, 2002. Allou's 2002 Form 10-K reported the fourth quarter and full year revenue and net income figures described in paragraphs 69-70.

72. Victor Jacobs, Herman Jacobs, Jacob Jacobs, and Shamilzadeh signed Allou's 2002 Form 10-K.

73. The fourth quarter results Allou announced in the July 1, 2002 press release and reported in its Form 10-K included approximately $31 million of revenue from the falsified sales invoices. Thus, Allou overstated fourth quarter revenue by $31 million, which was approximately twenty-eight percent of Allou’s actual revenue.

74. In its 2002 Form 10-K, Allou also reported year-end accounts receivable of $109 million. This $109 million of accounts receivable included approximately $4 million of stale accounts receivable that had been manipulated to appear current.

75. According to its accounting procedures, Allou should have recognized an expense to account for these stale accounts receivable.

76. Additionally, in its 2002 Form 10-K, Allou reported inventory valued at $185 million.

77. This inventory amount was materially overstated because it included amounts Herman Jacobs and Shamilzadeh had falsified.

78. Finally, in its 2002 Form 10-K, Allou reported that it purchased $21 million of inventory from related parties.

79. Allou failed to disclose accurately its related party transactions. In fact, Allou made approximately $179 million in payments to affiliated entities during fiscal year 2002, some or all of which was for nonexistent inventory. These payments, which were a means for the Jacobs family to siphon funds from Allou, were not fully disclosed.

80. Allou had a duty to disclose accurately all related party transactions.

Fiscal Year 2002 audit

81. During the winter and spring of 2002, Allou's auditors conducted an audit of Allou's March 31, 2002 financial statements.

82. During the audit, Victor Jacobs, Herman Jacobs, Shamilzadeh, Brown, and other Allou employees failed to tell the auditors that Allou had made significantly more than $21 million of payments to related parties.

83. Herman Jacobs and Shamilzadeh falsely told Allou's auditors that, among other things, Allou's March 31, 2002 financial statements accurately reflected Allou's accounts receivable.

84. Herman Jacobs and Shamilzadeh represented in writing to the auditors that Allou's financial statements had been prepared in conformity with generally accepted accounting principles ("GAAP") when, in fact, they had not been.

Allou Filed a Materially Misleading Form S-3
Registration Statement with the Commission

85. On July 19, 2002, Allou filed a Form S-3 with the Commission to register a secondary offering of Allou stock.

86. The Form S-3 incorporated by reference Allou's March 31, 2002 Form 10-K, which included the materially misleading fiscal year 2002 financial statements.

87. Victor Jacobs, Herman Jacobs, Jacob Jacobs, and Shamilzadeh each signed the Form S-3.

Allou Materially Overstated Revenue and Income for the Fiscal First Quarter Ended June 30, 2002

88. On August 14, 2002, Allou issued a news release announcing first quarter of fiscal year 2003 revenue of $147 million and net income of $678,000, or earnings of $0.08 per share.

89. The same day, Allou filed with the Commission a Form 10-Q for the first quarter ended June 30, 2002. The Form 10-Q reported the revenue and income figures described in paragraph 88.

90. The first quarter revenue included $43 million of sales attributable to the falsified invoices. Thus, Allou overstated revenue by $43 million, which was approximately forty-one percent of Allou's actual revenue.

91. The Form 10-Q also reported inventory for the first quarter of fiscal year 2003 valued at $194 million.

92. This inventory amount was materially overstated because it included bogus purchases directed by Victor Jacobs as well as amounts Herman Jacobs and Shamilzadeh had falsified.

93. Shamilzadeh signed the first quarter Form 10-Q on behalf of Allou.

Allou Materially Overstated Revenue and Income for the Fiscal Second Quarter Ended September 30, 2002

94. On November 12, 2002, Allou issued a press release announcing revenue for the second quarter of fiscal year 2003 of $166 million and net income of $4.5 million, or earnings of $0.53 per share.

95. On November 14, 2002, Allou filed with the Commission a Form 10-Q for the second quarter of fiscal year 2003, which quarter ended September 30, 2002. In this second quarter Form 10-Q, Allou reported the revenue and net income described in paragraph 94.

96. In the November 12 press release and the second quarter Form 10-Q, Allou included approximately $52 million of revenue attributable to falsified invoices. Thus, Allou overstated second quarter revenue by $52 million, which was approximately forty-five percent of the actual revenue.

97. The Form 10-Q also reported inventory for the second quarter of fiscal year 2003 valued at $110 million. In addition, Allou reported in the Form 10-Q that in September 2002 a fire had destroyed a warehouse in Brooklyn used to store some of Allou's inventory, and that the inventory destroyed in the fire had a cost-basis value of approximately $86 million.

98. These inventory amounts were materially overstated because it included bogus purchases directed by Victor Jacobs as well as amounts Herman Jacobs and Shamilzadeh had falsified.

99. Shamilzadeh and Herman Jacobs signed the second quarter Form 10-Q on behalf of Allou.

100. Herman Jacobs and Shamilzadeh also certified the financial statements under Sections 302 and 906 of the Sarbanes-Oxley Act.

Allou Materially Overstated Revenue and
Income for the Fiscal Third Quarter Ended December 31, 2002

101. On February 11, 2003, Allou announced third quarter revenue of $156 million and net income of $1.3 million, or earnings of $0.16 per share.

102. On February 14, 2003, Allou filed with the Commission a Form 10-Q for the 2003 fiscal third quarter ended December 31, 2002. In the third quarter Form 10-Q, Allou reported the revenue and net income described in paragraph 101.

103. In the February 11 press release and the third quarter Form 10-Q, Allou included approximately $58 million of revenue attributable to falsified sales invoices. Thus, Allou overstated revenue by approximately $58 million, which was an overstatement of approximately fifty-nine percent of the actual revenue.

104. The Form 10-Q also reported inventory for the third quarter of fiscal year 2003 valued at $76 million.

105. The Form 10-Q also reported that Allou recorded an insurance claim of $87 million on its balance sheet representing the cost basis of inventory lost in a fire in Allou's Brooklyn warehouse.

106. These inventory amounts were materially overstated because they included bogus purchases directed by Victor Jacobs as well as amounts Herman Jacobs and Shamilzadeh had falsified.

107. In its February 11 press release and third quarter Form 10-Q, Allou also reported nine-month revenue of $471 million and net income of $6.5 million, or earnings of $0.77 per share. Of the nine-month revenue reported, approximately $153 million, or forty-eight percent, was attributable to falsified sales invoices.

108. Herman Jacobs and Shamilzadeh signed the third quarter Form 10-Q on behalf of Allou.

109. Herman Jacobs and Shamilzadeh again certified the accuracy of the financial statements under Sections 302 and 906 of the Sarbanes-Oxley Act.

Allou Continued to Record Falsified Sales
During the Fourth Quarter of Fiscal Year 2003

110. During the fourth quarter of fiscal year 2003, Allou management continued to record revenue from falsified sales invoices on Allou's books and records.

111. During the fiscal fourth quarter, Allou recorded approximately $35 million in falsified sales. Before the fiscal year ended and Allou reported fourth quarter and full year results, the Defendants had been ousted from their positions as officers, directors, or employees of Allou, thus ending the fraudulent scheme.

112. During the fourth fiscal quarter, Allou continued to materially overstate the value of its inventory.

Allou Failed to Make and Keep Required Books, Records, and Accounts

113. From at least January 2002 through March 2003, Allou failed to make and keep books, records, and accounts that, in reasonable detail, fairly and accurately reflected Allou's transactions and dispositions of assets.

Allou Did Not Have Adequate Internal Controls

114. From at least January 2002 through March 2003, Allou had inadequate internal controls. Allou’s internal controls failed to insure that transactions were recorded to permit the preparation of financial statements in conformity with GAAP, and failed to maintain accountability for assets, including the accurate recording of accounts receivable.

FIRST CLAIM FOR RELIEF

Violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Rule 10b-5

(Against Victor Jacobs, Herman Jacobs, Jacob Jacobs, Shamilzadeh, and Brown)

115. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1-114.

116. Victor Jacobs, Herman Jacobs, Jacob Jacobs, Shamilzadeh, and Brown, directly or indirectly, singly or in concert, by use of the means or instrumentalities of interstate commerce, or of the mails, in the offer and sale, and in connection with the purchase or sale, of Allou securities, knowingly or recklessly: (a) employed devices, schemes and artifices to defraud; (b) obtained money or property by means of, or otherwise made, untrue statements of material fact, or omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; and/or (c) engaged in acts, practices and courses of business which operated or would have operated as a fraud or deceit upon purchasers of Allou securities and upon other persons.

117. As part and in furtherance of the violative conduct, the Defendants engaged in a fraudulent scheme to conceal Allou's true financial condition. The Defendants also misrepresented and failed to disclose material information in Allou's press releases, Forms 10-Q, Form 10-K, and Form S-3 filed with the Commission by, among other things, materially overstating Allou's revenue, income, and inventory and by failing to disclose related party transactions.

118. The misrepresentations and omissions described in paragraphs 28-114 were material.

119. Defendants each knew, or were reckless in not knowing, that Allou's press releases, Forms 10-Q, Form 10-K, and Form S-3 described above contained material misrepresentations and failed to disclose material information.

120. By reason of the foregoing, Victor Jacobs, Herman Jacobs, Jacob Jacobs, Shamilzadeh, and Brown, singly or in concert, directly or indirectly, violated, and unless enjoined will again violate, 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, 17 C.F.R. § 240.10b-5.

SECOND CLAIM FOR RELIEF

Violations of Section 13(b)(5)
of the Exchange Act and Rule 13b2-1

(Against Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown)

121. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1-120.

122. Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown knowingly circumvented or knowingly failed to implement a system of internal accounting controls required to be devised and maintained pursuant to Section 13(b)(2)(B) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(B), or knowingly falsified, directly or indirectly, or caused to be falsified books, records, and accounts that were required to be maintained pursuant to Section 13(b)(2)(A) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(A).

123. Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown, directly or indirectly, falsified or caused to be falsified books, records, or accounts subject to Section 13(b)(2)(A) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(A), in violation of Rule 13b2-1, 17 C.F.R. § 240.13b2-1.

124. As part and in furtherance of the violative conduct, Victor Jacobs provided Shamilzadeh with checks from entities the Jacobs family controlled, and directed Shamilzadeh to apply the checks against false sales. Victor Jacobs and Herman Jacobs made Allou's stale accounts receivable appear current. Herman Jacobs, Shamilzadeh, and Brown maintained a second set of books at Allou to track the false accounts receivable and inventory.

125. By reason of the foregoing, Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown have violated, and unless enjoined will again violate, Section 13(b)(5) of the Exchange Act, 15 U.S.C. § 78m(b)(5), and Rule 13b2-1, 17 C.F.R. § 240.13b2-1.

THIRD CLAIM FOR RELIEF

Violations of Section 13(b) of the Exchange Act and Rule 13b2-2

(Against Victor Jacobs, Herman Jacobs, and Shamilzadeh)

126. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1-125.

127. Victor Jacobs, Herman Jacobs, and Shamilzadeh knowingly or recklessly, directly or indirectly, made or caused to be made materially false or misleading statements, or omitted to state or caused others to omit to state, material facts necessary in order to make statements made, in light of the circumstances under which such statements were made, not misleading, to Allou's auditors in connection with an audit or examination of Allou's financial statements required to be made pursuant to Commission rules and regulations, or the preparation or filing of any document or report required to be filed with the Commission.

128. As part and in furtherance of the violative conduct, Herman Jacobs and Shamilzadeh signed a letter to Allou's auditors, in connection with the audit of Allou's March 31,

2002 financial statements, representing that the financial statements had been prepared in conformity with GAAP, when, in fact, they had not.

129. As part and in furtherance of the violative conduct, during the course of the fiscal year 2002 audit, Herman Jacobs and Shamilzadeh, among other things, directed Allou's employees to fabricate shipping and other documents to be given to the auditors.

130. As part and in furtherance of the violative conduct, Victor Jacobs was aware that fabricated documents were given to the auditors. Among other things, Victor Jacobs also failed to disclose related party transactions to the auditors.

131. Victor Jacobs, Herman Jacobs, and Shamilzadeh were officers and directors of Allou when they engaged in the foregoing conduct.

132. By reason of the foregoing, Victor Jacobs, Herman Jacobs, and Shamilzadeh, singly or in concert, directly or indirectly, have violated, and unless enjoined will again violate, Section 13(b) of the Exchange Act, 15 U.S.C. § 78m(b), and Rule 13b2-2, 17 C.F.R. § 240.13b2-2.

<u>FOURTH CLAIM FOR RELIEF</u>

Violations of Exchange Act Rule 13a-14

(Against Herman Jacobs and David Shamilzadeh)

133. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1-132.

134. Rule 13a-14, enacted pursuant to Section 302 of the Sarbanes-Oxley Act, requires the principal executive and financial officers of issuers filing periodic reports with the Commission under Section 13(a) of the Exchange Act to certify, among other things, that: they have reviewed the report being filed; the report does not contain any material misstatements or

omissions; the financial statements and other financial information in the report fairly present in all material respects the issuer's financial condition, results of operations, and cash flows; the certifying officers are responsible for establishing and maintaining disclosure controls and procedures, and had (i) designed such disclosure controls and procedures to ensure that material information is made known to them, (ii) evaluated the effectiveness of the disclosure controls and procedures, and (iii) indicated their conclusions about the effectiveness of the disclosure controls and procedures; they and the other certifying officers have disclosed to the issuer's auditors and the audit committee of the issuer's board of directors (i) all significant deficiencies in the design or operation of internal controls that could adversely affect the issuer's ability to present financial information and have identified for the auditors any material weaknesses in internal controls, and (ii) any fraud involving management or other employees with a significant role in internal controls; and they have indicated whether there are significant changes in internal controls or in other factors that could significantly affect internal controls.

135. Herman Jacobs and Shamilzadeh both signed certifications pursuant to Rule 13a-14 that Allou attached as exhibits to Allou's Forms 10-Q for the periods ended September 30, 2002 and December 31, 2002.

136. Allou's Forms 10-Q for the periods covered by the certifications contained material misstatements and omissions, and the financial statements and other financial information contained in the Forms 10-Q did not accurately reflect Allou's financial condition, results of operations, and cash flows.

137. When Herman Jacobs and Shamilzadeh signed the certifications, they had not designed or maintained adequate disclosure controls and procedures.

138. When Herman Jacobs and Shamilzadeh signed the certifications, they had not disclosed to Allou's auditors or to the audit committee of Allou's Board of Directors any significant deficiencies in the design or operation of Allou's internal controls, or fraud involving management or others with significant involvement in Allou's internal controls.

139. By reason of the foregoing, Herman Jacobs and Shamilzadeh violated, and unless enjoined will again violate, Rule 13a-14, 17 C.F.R. § 240.13a-14.

FIFTH CLAIM FOR RELIEF

Aiding and Abetting Violations of Section 13(a) of the Exchange Act and Rules 12b-20 and 13a-1

(Against Victor Jacobs, Herman Jacobs, Jacob Jacobs, Shamilzadeh, and Brown)

140. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1-139.

141. Allou failed to include in annual reports, in addition to information expressly required to be stated, such further material information as was necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading, in violation of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20 and 13a-1, 17 C.F.R. §§ 240.12b-20 and 240.13a-1. As described above, Allou's Form 10-K for the year ended March 31, 2002 was false and misleading because it misstated Allou's financial condition and results of operations, including among other things revenue, income, and expenses.

142. By reason of the foregoing, Allou violated Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20 and 13a-1, 17 C.F.R. §§ 240.12b-20 and 240.13a-1.

143. At all times relevant hereto, Victor Jacobs, Herman Jacobs, Jacob Jacobs, Shamilzadeh, and Brown knew of Allou's violations described in paragraphs 68-84 and 140-142.

144. Victor Jacobs, Herman Jacobs, Jacob Jacobs, Shamilzadeh, and Brown substantially assisted Allou's violations by falsifying sales invoices, converting aged accounts receivable to current accounts receivable, overstating inventory, failing to disclose related party transactions, and/or signing the Form 10-K.

145. By reason of the foregoing and pursuant to Section 20(e) of the Exchange Act, 15 U.S.C. § 78t(e), Victor Jacobs, Herman Jacobs, Jacob Jacobs, Shamilzadeh, and Brown each, singly or in concert, directly or indirectly, aided and abetted Allou's violations of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20 and 13a-1, 17 C.F.R. §§ 240.12b-20 and 240.13a-1, and unless enjoined they will again aid and abet violations of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20 and 13a-1, 17 C.F.R. §§ 240.12b-20 and 240.13a-1.

SIXTH CLAIM FOR RELIEF

Aiding and Abetting Violations of Section 13(a) of the Exchange Act and Rules 12b-20 and 13a-13

(Against Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown)

146. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1-145.

147. Allou failed to file with the Commission, in accordance with the rules and regulations prescribed by the Commission, such quarterly reports as the Commission has prescribed and Allou failed to include, in addition to the information expressly required to be stated in such reports, such further material information as was necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading, in violation of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rule 13a-13, 17 C.F.R. § 240.13a-13. As described above, Allou's Forms 10-Q filed for the periods ended June 30,

2002, September 30, 2002, and December 31, 2002 were false and misleading because they misstated Allou's financial condition, including among other things, revenue, income, and expenses.

148. By reason of the foregoing, Allou violated Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20 and 13a-13, 17 C.F.R. §§ 240.12b-20 and 240.13a-13.

149. At all times relevant hereto, Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown knew of Allou's violations described in paragraphs 88-112 and 146-148.

150. Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown substantially assisted Allou's violations by, among other things, falsifying invoices and overstating inventory.

151. By reason of the foregoing and pursuant to Section 20(e) of the Exchange Act, 15 U.S.C. § 78t(e), Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown each, singly or in concert, directly or indirectly, aided and abetted Allou's violations of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20 and 13a-13, 17 C.F.R. §§ 240.13a-13, and unless enjoined they will again aid and abet violations of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20 and 13a-13, 17 C.F.R. §§ 240.12b-20 and 240.13a-13.

SEVENTH CLAIM FOR RELIEF

Aiding and Abetting Violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act

(Against Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown)

152. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1-151.

153. Allou failed (a) to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected its transactions and dispositions of assets; and (b) to devise and maintain a system of internal accounting controls sufficient to provide

reasonable assurances that (i) transactions were executed in accordance with management's general or specific authorization; (ii) transactions were recorded as necessary to permit preparation of financial statements in conformity with GAAP or any other criteria applicable to such statements, and to maintain accountability for assets; (iii) access to assets was permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets was compared with the existing assets at reasonable intervals and appropriate action was taken with respect to any differences, in violation of Section 13(b)(2) of the Exchange Act, 15 U.S.C. § 78m(b)(2). As described above, Allou's books and records and internal accounting controls were insufficient to enable Allou to prepare its 2002 and 2003 annual and quarterly financial statements in conformity with GAAP.

154. Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown knew of Allou's violations described in paragraphs 113-114 and 152-153.

155. Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown substantially assisted Allou's conduct in violation of Section 13(b)(2) of the Exchange Act, 15 U.S.C. § 78m(b)(2). The Defendants, among other things, created false sales invoices, false shipping documents, and/or other documents to conceal fraudulent transactions. These transactions were falsely reflected in Allou's books and records as accurate, and were not recorded as necessary to permit the preparation of financial statements in conformity with GAAP.

156. By reason of the foregoing and pursuant to Section 20(e) of the Exchange Act, 15 U.S.C. § 78t(e), Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown each, singly or in concert, directly or indirectly, aided and abetted Allou's violations of Section 13(b)(2) of the Exchange Act, 15 U.S.C. § 78m(b)(2), and unless enjoined they will again aid and abet violations of Section 13(b)(2) of the Exchange Act, 15 U.S.C. § 78m(b)(2).

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests a Final Judgment:

I.

Permanently enjoining Victor Jacobs, Herman Jacobs, Jacob Jacobs, Shamilzadeh, and Brown, their agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from future 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, 17 C.F.R. § 240.10b-5.

II.

Permanently enjoining Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown, their agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations of Section 13(b)(5) of the Exchange Act, 15 U.S.C. § 78m(b)(5), and Rule 13b2-1, 17 C.F.R. § 240.13b2-1.

III.

Permanently enjoining Victor Jacobs, Herman Jacobs, and Shamilzadeh, their agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations of Section 13(b) of the Exchange Act, 15 U.S.C. § 78m(b), and Rule 13b2-2, 17 C.F.R. § 240.13b2-2.

IV.

Permanently enjoining Herman Jacobs and Shamilzadeh, their agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations of Rule 13a-14, 17 C.F.R. § 240.13a-14.

V.

Permanently enjoining Victor Jacobs, Herman Jacobs, Jacob Jacobs, Shamilzadeh, and Brown, their agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from violating, directly or indirectly, or as an aider or abettor, Section 13(a) of the Exchange Act, 15 U.S.C. §§ 78m(a), and Rules 12b-20 and 13a-1, 17 C.F.R. §§ 240.12b-20, and 240.13a-1.

VI.

Permanently enjoining Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown, their agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from violating, directly or indirectly, or as an aider or abettor, Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20 and 13a-13, 17 C.F.R. §§ 240.12b-20 and 240.13a-13.

VII.

Permanently enjoining Victor Jacobs, Herman Jacobs, Shamilzadeh, and Brown, their agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from violating, directly or indirectly, or as an aider or abettor, Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, 15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(A).

VIII.

Ordering Victor Jacobs, Herman Jacobs, Jacob Jacobs, Shamilzadeh, and Brown to disgorge the ill-gotten gains they received as a result of their violations of the federal securities laws and to pay prejudgment interest thereon.

IX.

Ordering Victor Jacobs, Herman Jacobs, Jacob Jacobs, Shamilzadeh, and Brown to pay civil money penalties, pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3).

X.

Permanently prohibiting Victor Jacobs, Herman Jacobs, Jacob Jacobs, Shamilzadeh, and Brown, and each of them, from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act, 15 U.S.C. § 78l, or that is required to file reports pursuant to Section 15(d) of the Exchange Act, 15 U.S.C. § 78o(d), pursuant to Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 78u(d)(2).

XI.

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

Dated: New York, NY
June 17, 2004

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EDWIN H. NORDLINGER (EN-6258)

Attorney for the Plaintiff
SECURITIES AND EXCHANGE COMMISSION
Northeast Regional Office
233 Broadway
New York, NY 10279
(646) 428-1907 (Russello)

Of Counsel:

Mark K. Schonfeld
Kay L. Lackey
Paul G. Gizzi
Gerald J. Russello