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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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:
SECURITIES AND EXCHANGE COMMISSION, :
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Plaintiff, :
:
:
- against - :
:
ISHOPNOMARKUP.COM, INC., :
SCOTT W. BROCKOP, : **COMPLAINT**
ANTHONY M. KNIGHT, and :
MOUSSA YEROUSHALMI : CV 04 4057
a/k/a MIKE YEROUSH, :
:
Defendants. :
:
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The plaintiff Securities and Exchange Commission (“Commission”) alleges the following against defendants iShopNoMarkup.com, Inc. (“iShop”), Scott W. Brockop (“Brockop”), Anthony M. Knight (“Knight”), and Moussa Yeroushalmi a/k/a Mike Yeroush (“Yeroushalmi”):

SUMMARY

1. From the fall of 1999 to the summer of 2000, iShop, a start-up Internet company, defrauded over 350 investors by misrepresenting material information about the company’s operations and capital raising plans to individuals who invested approximately \$2.3 million in iShop stock.

2. iShop claimed it was developing a shopping mall on the Internet to sell products directly from manufacturers to consumers at no markup. To raise capital, iShop conducted a series of purported private placement offerings and distributed confidential offering memoranda (“COMs”) to investors. The COMs misrepresented, and failed to disclose, material information. For instance, iShop’s COM dated September 21, 1999 (“September 1999 COM”) stated that iShop had obtained signed letters of intent from various manufacturers to list three million products on the website. This representation was false. In fact, as of September 21, 1999, iShop only had one agreement to list products with a small auto parts supplier that was owned by one of iShop’s founders.

3. Knight, the chairman of iShop’s Board of Directors, Yeroushalmi, iShop’s President, and Brockop, iShop’s Vice-President of Sales and Marketing, also made oral misrepresentations to individuals to persuade them to buy iShop stock. For instance, at a November 1999 meeting with potential investors, Knight stated that iShop would be conducting an initial public offering (“IPO”) of stock in three months at \$10 per share, and iShop’s stock price would then double or triple in value. In fact, iShop had not taken any significant steps to conduct an IPO (e.g., iShop had not filed a registration statement with the Commission), and Knight had no reasonable basis to predict that iShop’s share price would dramatically increase in value. In July 2000, Yeroushalmi told an investor that a \$10,000 investment would return \$500,000 to \$1 million, and that Merrill Lynch was “backing” the company. In fact, neither Merrill Lynch nor any other investment bank was providing services to iShop, and there was no reasonable basis to predict that an investment in iShop would produce such a large return.

4. iShop also ran a “boiler room” operation, where permanent and temporary employees cold-called potential investors. Brockop supervised these salespeople, and he also

actively solicited investors. IShop's salespeople made material misrepresentations to investors. For instance, Brockop told an investor ("Investor R.D.") that iShop would conduct an IPO within 18-36 months at \$10-\$18 per share. Brockop, however, had no reasonable basis to make this claim.

5. Through the purported private placement offerings, iShop sold approximately 6,748,600 shares of unregistered stock to more than 350 investors and obtained proceeds of approximately \$2.3 million.

VIOLATIONS OF FEDERAL SECURITIES LAWS

6. IShop, directly or indirectly, singly or in concert, has engaged in transactions, acts, practices, or courses of business that constitute violations of Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§ 77e(a), 77e(c), and 77q(a), Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5.

7. Brockop, directly or indirectly, singly or in concert, has engaged in transactions, acts, practices, or courses of business that constitute violations of Sections 5(a), 5(c), and 17(a) of the Securities Act, 15 U.S.C. §§ 77e(a), 77e(c), and 77q(a), Sections 10(b) and 15(a) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78o(a), and Rule 10b-5, 17 C.F.R. § 240.10b-5.

8. Knight, directly or indirectly, singly or in concert, has engaged in transactions, acts, practices, or courses of business that constitute violations of Sections 5(a), 5(c), and 17(a) of the Securities Act, 15 U.S.C. §§ 77e(a), 77e(c), and 77q(a), and Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5. Additionally, Knight has engaged in acts, practices, or courses of business that have aided and abetted violations of Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a).

9. Yeroushalmi, directly or indirectly, singly or in concert, has engaged in transactions, acts, practices, or courses of business that constitute violations of Sections 5(a), 5(c), and 17(a) of the Securities Act, 15 U.S.C. §§ 77e(a), 77e(c), and 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.

JURISDICTION AND VENUE

10. 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 iShop, Brockop, Knight, and Yeroushalmi from engaging in the transactions, acts, practices, and courses of business alleged herein. The Commission seeks an order requiring Brockop, Knight, and Yeroushalmi to disgorge their ill-gotten gains and to pay prejudgment interest thereon. The Commission 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 Brockop, Knight, and Yeroushalmi. The Commission also 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 Knight and Yeroushalmi from serving as officers or directors of a public company. Finally, the Commission seeks all other just and appropriate relief.

11. 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.

12. 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, iShop maintained its principal place of business in Port Washington, New York and later moved to Garden City, New York.

13. 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 transactions, acts, practices, and courses of business alleged herein.

DEFENDANTS

14. IShop is a Nevada corporation. IShop maintained its principal place of business in Port Washington and later moved to Garden City, New York. IShop is currently located in Great Neck, New York. IShop claimed to be developing a shopping mall on the Internet to sell products directly from suppliers to customers at no markup.

15. Brockop is 39 years old and resides in Edison, New Jersey. Brockop served as iShop's Vice President of Sales and Marketing from approximately December 1999 to June 2000. Brockop was in charge of iShop's efforts to solicit investors, and he trained iShop employees to solicit investors. On March 10, 2000, Brockop pled guilty to conspiracy to commit securities fraud. See United States v. Brockop, No. 00 Cr. 58 (S.D.N.Y.). In his guilty plea, Brockop admitted that during 1997 and 1998, he solicited investors to purchase stock in ConnecTechnologies, Inc. and Vital Signs, Inc. without disclosing that those companies had agreed to pay him a commission of up to 25% of the amount invested.

16. Knight is 38 years old and resides in La Jolla, California. Knight served as the Chairman of iShop's Board of Directors. From August 1999 to approximately February 2000, Knight served as iShop's Secretary, and from approximately February 2000 to March 2000

Knight served as iShop's CEO. From the fall of 1999 to the summer of 2000, Knight was also the principal of a consulting company, Knight Mitchell International, Inc. ("Knight Mitchell").

17. Yeroushalmi (a/k/a Mike Yeroush) is 51 years old and resides in Great Neck, New York. Yeroushalmi held the titles of President and CEO of iShop at various times since October 1999.

FACTS

iShop's Purported Business Model

18. Knight developed the concept of a no markup Internet shopping mall, and he and another individual formed iShop in August of 1999.

19. According to iShop's business model, the company planned to enable customers to purchase products through its website directly from manufacturers at no markup. iShop planned to make arrangements with various manufacturers to list products, and customers would be able to place orders to purchase products through iShop's website. The manufacturers would then ship the products directly to the customer, and iShop would not carry any inventory. iShop would not markup the prices of the products, but would charge a fee of \$1.50 per transaction. iShop claimed customers would be attracted to the website because product prices would be low, and iShop would be profitable because the website would generate huge sales volume.

20. Despite iShop's purported business model, iShop only took rudimentary steps to develop an Internet business during 1999 and 2000. Instead, the company's primary focus was raising money from investors.

Defendants Conducted Purported Private Placement Offerings and Obtained Proceeds of More Than \$2.3 Million

21. From September 1999 to July 2000, iShop conducted a series of purported private

placement offerings of common stock.

22. In connection with these offerings, iShop distributed COMs, that Knight drafted, to prospective investors.

23. The September 1999 COM stated that iShop would sell 5,263,157 shares of common stock at \$0.19 per share for maximum proceeds of \$1,000,000.

24. IShop distributed the September 1999 COM to potential investors along with a subscription agreement requiring investors to verify that they were “accredited” to invest in the offering. (An investor was considered “accredited” if the investor met certain criteria, such as minimum income of \$200,000 per year or net worth exceeding \$1,000,000.)

25. From October 1999 to early March 2000, iShop sold all 5,263,157 shares of stock to approximately 180 investors, and obtained proceeds of approximately \$1,000,000.

26. During March 2000, iShop solicited investors in another offering of stock. In this offering, iShop offered an unspecified number of shares at \$0.75 per share. In connection with this offering, iShop again distributed the September 1999 COM to potential investors.

27. IShop sold approximately 735,300 shares of stock to at least 60 investors, and obtained proceeds of approximately \$550,000.

28. From approximately April 2000 to July 2000, iShop conducted a third purported private placement offering of stock.

29. In connection with this offering, Knight prepared a COM dated February 3, 2000 (“February 2000 COM”), and iShop distributed this COM to prospective investors.

30. The February 2000 COM stated that iShop would offer 5,000,000 shares of stock at \$1.00 per share.

31. IShop again distributed subscription agreements requiring investors to verify that

they were “accredited” to invest in the offering.

32. IShop sold approximately 750,000 shares to approximately 115 investors, and obtained proceeds of approximately \$750,000.

33. In total, iShop sold approximately 6,748,617 shares of stock to at least 355 investors residing in 21 different states. IShop obtained proceeds of more than \$2.3 million.

34. IShop did not file a registration statement with the Commission with respect to any of these sales of stock, and there was no registration statement otherwise in effect.

**Defendants Made Material Misrepresentations and
Failed to Disclose Material Information to Investors**

35. As explained below, both the September 1999 COM and the February 2000 COM misrepresented, and failed to disclose, material information. In addition, iShop frequently provided potential investors with an undated document entitled “Confidential Executive Summary” (“Executive Summary”), which contained a description of iShop’s purported business operations. As with the COMs, the Executive Summary misrepresented, and failed to disclose, material information.

iShop Misrepresented the Number of Products Available to List on the Website

36. The September 1999 COM stated that iShop had “signed letters of intent with suppliers of products to list approximately 3,000,000 products” on the website. This representation was false. As of September 1999, the only products that iShop had available to list on the website were from a small auto parts supply company that was owned by one of iShop’s founders.

iShop Misrepresented the Status of the Website Development

37. The September 1999 COM stated that iShop hoped “to have its website fully operational . . . by late December 1999.” Further, the COM stated:

The expanded website will be developed by ... a director of the Company and its Chief Technical Officer, with the assistance of Company employees. By late December the website should be completed and will be extensively tested to ensure performance.

IShop had no reasonable basis to state that its website would be fully operational by December 1999. In September 1999, substantial work that would take significantly longer than three months still needed to be performed to make iShop's website functional.

38. IShop again misrepresented the status of the website development in the February 2000 COM. For instance, the February 2000 COM stated that the website would be "fully operational" by late February 2000, and that the website was undergoing extensive testing for the "most excellent and reliable performance." In February 2000, iShop had no reasonable basis to claim its website would be fully operational by late February 2000. Substantial work that would take significantly longer than one month still needed to be performed on the website. Indeed, as of March 2000, iShop's technology infrastructure lacked certain business capabilities that were essential to conducting an Internet-based business (e.g., safeguards to protect against credit card fraud; a system for recovering lost data; a "router" to transfer customer data between networks; a high-speed Internet connection; and an in-house "server" capable of hosting the website).

39. In short, iShop was simply not capable of creating the technology structure necessary to support its business model in the timeframe the company represented.

iShop Misrepresented its International Operations

40. The September 1999 COM stated that "[t]he Company maintains its corporate headquarters in Port Washington, New York, and also has branch offices in Hong Kong, Singapore and Sydney, Australia, and will soon be opening a branch office in Tokyo, Japan." This representation was false. In September 1999, iShop did not have any operational international offices, such as branch offices in Hong Kong, Singapore, or Sydney.

41. The February 2000 COM indicated that iShop maintained international branch offices, and represented that iShop had two additional international offices in London and Shanghai. This representation was false. In February 2000, iShop did not have any operational international offices.

*iShop Failed to Disclose that Proceeds from the Offerings
Were Used to Pay Bogus Consulting Fees to Knight Mitchell*

42. From December 1999 to May 2000, iShop paid Knight Mitchell approximately \$70,000 for purported consulting services.

43. The September 1999 COM failed to disclose that iShop had a relationship with Knight Mitchell, and the COM also failed to disclose this consulting relationship was a related party transaction.

44. The February 2000 COM provided inadequate disclosure regarding the relationship between iShop and Knight Mitchell. Specifically, the February 2000 COM stated: “[t]he Company retains [Knight Mitchell] for consulting purposes. Anthony Knight, an officer, director and shareholder of the Company, is a majority owner of [Knight Mitchell], a privately held company that performs business and financial consulting.”

45. The February 2000 COM failed to disclose, however, that Knight Mitchell did not provide legitimate consulting services in return for the consulting fees paid by iShop.

*iShop Failed to Disclose that Proceeds from the Offerings
Were Used to Make “Loans” to Affiliated Start-up Companies*

46. IShop’s February 2000 COM described how iShop planned to use the proceeds of the offerings. For instance, the February 2000 COM stated that proceeds from the offering would be used for “website development, consulting, marketing, manufacturing development, legal and accounting, printing, and working capital.”

47. IShop failed to disclose that it would use proceeds from the offerings to make loans to two start-up companies that Knight and Yeroushalmi had formed, iTechInternet.com (“iTech”) and JewelryEngine.com (d/b/a 1andOnlyDiamond.com) (“JewelryEngine”).

48. IShop’s February 2000 COM also failed to disclose that these loan transactions to iTech and JewelryEngine were related party transactions.

49. Specifically, on March 9, 2000, iShop made a \$50,000 loan to iTech. Knight and Yeroushalmi formed iTech purportedly to develop iShop’s website. (iTech’s workforce consisted of several low level iShop employees who had previously been working on iShop’s website.)

50. On March 9, 2000, iShop made a \$50,000 loan to JewelryEngine. Knight and Yeroushalmi formed JewelryEngine purportedly to sell diamonds and jewelry online at a substantial discount from typical vendors.

51. Neither iTech nor JewelryEngine had any operating history or revenues when iShop made the loans.

52. Neither iTech nor JewelryEngine ever repaid the loans to iShop.

53. IShop also failed to disclose that it would transfer proceeds from its offerings to PSY Trading. Specifically, the September 1999 COM did not disclose that iShop would use proceeds from its offerings to make payments to related parties.

54. PSY Trading is a company owned by Yeroushalmi.

55. On January 25, 2000, iShop transferred \$50,000 to PSY Trading.

iShop Misrepresented its Sources of Revenue in the Executive Summary

56. One version of the Executive Summary that iShop distributed to investors listed eighteen different sources from which iShop purportedly was generating revenue. Under a

heading entitled “Revenue Model,” the Executive Summary listed revenue sources both for the “B2C,” or business-to-consumer, marketplace and for the “B2B,” or business-to-business, marketplace as follows:

In the (B2C) market, iShop generates revenue by:

- (1) Standard Transaction fees
- (2) Save Engine™ licensee fees
- (3) Shipping markup
- (4) Advertising fees
- (5) Database revenues
- (6) Demographic data sales & opt-in lists
- (7) Volume discounts from suppliers/manufactures
- (8) Interest on revenue held in account (float)
- (9) Consumer finance

In the (B2B) market, iShop generates revenue by:

- (1) Vendor sourcing
- (2) EDI Purchase order and transaction fee
- (3) Retainer fees
- (4) Percentage of Reverse Auction savings
- (5) Customer conversion to automated procurement and payment system
- (6) Vendor transaction fees
- (7) Auction closeout fees
- (8) Commercial financing
- (9) Consulting fees

The Executive Summary further represented that “iShop is scheduled to have millions of dollars in revenue this year based on current existing B2B contracts alone.”

57. These representations were false. IShop did not derive revenue from any of the sources identified in paragraph 56. Moreover, iShop had not even planned to implement, and/or lacked the technological capability to support, many of these purported revenue streams.

Defendants Made Oral Misrepresentations to Investors

Knight and Yeroushalmi Orally Solicited Investors

58. Knight and Yeroushalmi personally solicited investors at iShop's offices, at "shareholder events," and over the telephone. In these oral solicitations, Knight and Yeroushalmi made numerous material misrepresentations.

59. For example, in November 1999, Knight made a presentation to an investor ("Investor G.H.") at iShop's offices. Knight told Investor G.H. that iShop would offer stock through an IPO at \$10 per share in three months. Knight also said that iShop was "backed" by Morgan Stanley and Merrill Lynch, and he told Investor G.H. that iShop's website would be operational by January 2000. Investor G.H. invested \$5,000 in iShop for 26,315 shares at \$0.19 per share.

60. In January 2000, Yeroushalmi told an investor ("Investor J.F.") that iShop stock would be offered in an IPO at \$25 per share, and the price of the stock would triple in value. Investor J.F. invested \$10,000 in iShop for 13,333 shares at \$0.75 per share.

61. In March 2000, Yeroushalmi told another investor ("Investor B.C.") that iShop stock would soon be offered in an IPO at \$5 to \$8 per share. Yeroushalmi told Investor B.C. that the stock price would rise to between \$40 and \$50 per share by September 2001, and that after September, the stock price would go to \$60 to \$80 per share. Yeroushalmi told Investor B.C. that an investment in iShop carried no risk and was a "sure thing," and that Merrill Lynch had tentatively agreed to put \$25 million into the company. Yeroushalmi told Investor B.C. that iShop had already raised \$8 million in the offering, and that iShop's projected revenues were \$50 to \$70 million per year. Yeroushalmi also told Investor B.C. that it was not necessary to be an

accredited investor. Investor B.C. invested \$10,000 in iShop for 13,333 shares at \$0.75 per share.

62. In May 2000, Yeroushalmi told another investor (“Investor P.R.”) that iShop would offer stock through an IPO at \$10 per share in the summer, and thereafter the stock price would go much higher. Although Investor P.R. was not an accredited investor, Yeroushalmi told the investor to ignore the portion of the subscription agreement requiring proof that Investor P.R. was accredited. Investor P.R. invested \$5,100 in iShop for 5,100 shares at \$1 per share.

63. In July 2000, Knight and Yeroushalmi told another investor (“Investor A.B.”) that iShop would offer shares of stock in an IPO at \$10 per share, and that the stock price would increase “ten fold” or more within a few months. Knight and Yeroushalmi told Investor A.B. that there was no risk associated with the investment. Investor A.B. invested \$5,000 in iShop for 5,000 shares at \$1 per share.

64. In July 2000, Yeroushalmi solicited another investor (“Investor B.G.”). Yeroushalmi told Investor B.G. that a \$10,000 investment would return \$500,000 to \$1 million. Yeroushalmi said that iShop would conduct an IPO in six weeks. Yeroushalmi told Investor B.G. that Merrill Lynch was “backing” the company. Investor B.G. invested \$10,000 in iShop for 10,000 shares at \$1 per share.

65. Yeroushalmi’s and Knight’s oral solicitations described above in paragraphs 58 through 64 were replete with misrepresentations. iShop did not have any specific plans to conduct an IPO, and iShop had not filed a registration statement with the Commission or otherwise taken steps to conduct an IPO on a date certain. Further, neither Merrill Lynch nor any other investment bank or broker-dealer was providing investment banking, underwriting, or other services to iShop. There was no reasonable basis to predict that iShop’s stock price would

dramatically increase in value in the near future. Finally, iShop did not have any revenue generating operations.

iShop Set Up a Boiler Room Operation to Solicit Investors

66. At Knight's direction, iShop set up a "boiler room" operation in its offices. Permanent and temporary employees manned a phone bank and cold-called potential investors to solicit interest in iShop stock.

67. Brockop supervised this operation, and he trained employees to solicit investors.

68. iShop employees used Dunn & Bradstreet lead cards, as well as general phone book listings, to identify potential investors.

69. iShop also obtained leads from other investors and by requiring employees to identify potential investors.

70. The employees manning the phone banks made material misrepresentations to potential investors to persuade them to purchase iShop stock.

71. Brockop also made misrepresentations to potential investors. For example, Brockop told Investor R.D. that iShop would conduct an IPO within 18 to 36 months at \$10 to \$18 per share. On December 6, 1999, Investor R.D. invested \$5,000 in iShop for 26,315 shares at \$0.19 per share.

72. Knight provided misleading information to cold-callers to use in their solicitations, and he pressured these employees to sell iShop stock. For example, Knight would tell the salespeople that iShop was going public by a certain date.

Brockop Failed to Register as a Broker

73. Brockop acted as a broker.

74. Brockop's primary function at iShop was to sell iShop stock to investors.

75. Brockop regularly and actively solicited investors.
76. Brockop advised investors that iShop stock was a good investment.
77. Brockop's compensation at iShop was based on his success in selling iShop stock to investors.
78. Brockop was not registered as a broker while he worked at iShop, and was not associated with a registered broker or dealer.
79. Knight supervised Brockop. Knight was aware that Brockop's primary function at iShop was to sell iShop stock to investors, and he based Brockop's compensation upon his success in selling iShop stock.

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 iShop, Brockop, Knight, and Yeroushalmi)

80. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 - 79.

81. IShop, Brockop, Knight, and Yeroushalmi 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 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 transactions, acts, practices, and courses of business

which operated or would have operated as a fraud or deceit upon purchasers of securities and upon other persons.

82. As part and in furtherance of the violative conduct, iShop, Brockop, Knight and Yeroushalmi participated in a fraudulent scheme to raise approximately \$2.3 million from investors. As part of this scheme, Knight directed iShop to conduct a series of purported private placement offerings. IShop distributed the COMs and Executive Summary to investors, which misrepresented, and failed to disclose, material information. Brockop, Knight, and Yeroushalmi also each made oral misrepresentations to persuade investors to purchase iShop securities.

83. IShop, Brockop, Knight, and Yeroushalmi misrepresented, and failed to disclose, material information to iShop investors.

84. IShop, Brockop, Knight, and Yeroushalmi each knowingly or recklessly made material misrepresentations and failed to disclose material information to iShop investors.

85. By reason of the foregoing, iShop, Brockop, Knight, and Yeroushalmi, 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 5(a) and 5(c) of the Securities Act

(Against iShop, Brockop, Knight, and Yeroushalmi)

86. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 - 85.

87. IShop, Brockop, Knight, and Yeroushalmi directly or indirectly: (a) made use of the means or instruments of transportation or communication in interstate commerce or of the

mails to sell securities through the use or medium of a prospectus or otherwise; or carried securities or caused such securities to be carried through the mails or in interstate commerce, by means or instruments of transportation, for the purpose of sale or for delivery after sale; and (b) made use of the means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell or offer to buy, through the use or medium of any prospectus or otherwise, securities without a registration statement having been filed with the Commission or being in effect as to such securities.

88. IShop sold common stock to over 350 investors residing in at least 21 states, and obtained proceeds of approximately \$2.3 million.

89. Knight directed iShop to sell stock through these offerings, and he helped to prepare iShop's COMs. Knight orally solicited investors to purchase iShop stock. Knight also directed Brockop and other salespeople to solicit investors and to sell iShop stock to them.

90. Brockop solicited investors to purchase iShop stock, and he sold iShop stock to them.

91. Yeroushalmi solicited investors to purchase iShop stock, and he sold iShop stock to them.

92. IShop did not file a registration statement with respect to the sales of its stock, and there was no registration statement otherwise in effect.

93. IShop, Knight, Yeroushalmi, and Brockop sold iShop stock using interstate means. For instance, iShop solicited prospective investors over the telephone, and sent offering materials to investors through the mails.

94. By reason of the foregoing, iShop, Brockop, Knight and Yeroushalmi, singly or in concert, directly or indirectly, violated, and unless enjoined will again violate, Sections 5(a) and 5(c) of the Securities Act, 15 U.S.C. §§ 77e(a) and 77e(c).

THIRD CLAIM FOR RELIEF

Violations of Section 15(a) of the Exchange Act

(Against Brockop)

95. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 - 94.

96. Brockop, directly or indirectly, singly or in concert, made use of the mails or means or instrumentalities of interstate commerce to effect transactions in, or to induce or attempt to induce the purchase or sale of securities, without being registered as a broker or dealer or associated with a registered broker or dealer in accordance with Section 15(b) of the Exchange Act, 15 U.S.C. § 78o(b).

97. As part and in furtherance of the violative conduct, Brockop actively and regularly solicited investors to purchase iShop stock, and he advised investors about the merits of an investment in iShop. Brockop also received compensation at iShop based on his success in selling iShop stock.

98. While he was engaged in this conduct, Brockop was not registered as a broker, or associated with a registered broker or dealer.

99. By reason of the foregoing, Brockop, singly or in concert, directly or indirectly, violated, and unless enjoined will again violate, Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a).

FOURTH CLAIM FOR RELIEF

Aiding and Abetting Violations of Section 15(a) of the Exchange Act

(Against Knight)

100. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 - 99.

101. Brockop, directly or indirectly, singly or in concert, made use of the mails or means or instrumentalities of interstate commerce to effect transactions in, or to induce or attempt to induce the purchase or sale of securities, without being registered as a broker or dealer or associated with a registered broker or dealer in accordance with Section 15(b) of the Exchange Act, 15 U.S.C. § 78o(b).

102. Knight knew that Brockop was acting as a broker. Knight supervised Brockop, and was aware that Brockop's primary function at iShop was to sell iShop stock to investors.

103. Knight knowingly provided substantial assistance to Brockop. For instance, Knight helped set up the boiler room operation, which Brockop then supervised on a day to day basis. Knight also directed employees, including Brockop, to solicit investors.

104. Pursuant to Section 20(e) of the Exchange Act, 15 U.S.C. § 78t(e), and by reason of the foregoing, Knight, directly or indirectly, aided and abetted and unless enjoined will again violate Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a).

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests a Final Judgment:

I.

Permanently enjoining iShop, Brockop, Knight, and Yeroushalmi, 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 iShop, Brockop, Knight, and Yeroushalmi, 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 Sections 5(a) and 5(c) of the Securities Act, 15 U.S.C. §§ 77e(a) and 77e(c).

III.

Permanently enjoining Knight and Brockop, 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 direct or indirect violations of Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a).

IV.

Ordering Brockop, Knight, and Yeroushalmi 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.

V.

Ordering Brockop, Knight, and Yeroushalmi 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).

VI.

Permanently prohibiting Knight and Yeroushalmi 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).

VII.

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

Dated: New York, NY
September 20, 2004

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