

STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF: JON A. DARMSTADTER)
_____))
_____))
_____)

CASE C0100052

CONSENT ORDER OF PROHIBITION

TO THE RESPONDENT: Jon A. Darmstadter
40 Roger Williams Road
Highland Park, IL 60035

Jon A. Darmstadter
c/o Henderson & Lyman
Andrew May, Esq.
175 West Jackson
Suite 240
Chicago, IL 60604

WHEREAS, Jon A. Darmstadter, on the 28th day of May, 2004, executed a certain Stipulation to Enter Consent Order of Prohibition (the "Stipulation"), which hereby is incorporated by reference herein;

WHEREAS, by means of the Stipulation, Respondent Darmstadter has admitted to the jurisdiction of the Secretary of State and service of the Amended Notice of Hearing, dated February 24, 2004, in this proceeding and Respondent has consented to the entry of this Consent Order of Prohibition (the "Consent Order");

WHEREAS, by means of the Stipulation, the Respondent acknowledged, while neither admitting nor denying the truth thereof, that the following allegations contained in the Notice of Hearing shall be adopted as the Secretary of State's Findings of Fact:

- 1) Little Bell and Company LLC ("Little Bell") is a business entity with a last known address of 2205 13th Street, Winthrop Harbor, IL 60096.
- 2) Doug Little ("Little") is an individual with a last known address of 2205 13th Street, Winthrop Harbor, IL 60096. Little is a partner with Little Bell.

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- 3) Jon Darmstadter ("Darmstadter" or "Respondent") is an individual with a last known address of 40 Roger Williams Road, Highland Park, IL 60035.
- 4) During all relevant times prior to January 24, 2001, Darmstadter was the President of a company named EKIDnetwork.com., Inc. ("EKID")
- 5) In or about January 24, 2001 EKID merged with East Coeur D'Alene Silver Mines. The surviving entity became know as Zkid Network Company ("Zkid").
- 6) Since January 24, 2001, Darmstadter has been the Chief Executive Officer, Chief Financial Officer and majority shareholder of Zkid.
- 7) Shilimoon Youkhana ("Youkhana") is an Illinois resident.
- 8) In or about January 2000, Darmstadter offered and sold a \$50,000.00 promissory note (the "Promissory Note") to Douglas Little. Darmstadter signed a receipt acknowledging, "received fifty thousand dollars (\$50,000) for the purchase of a note from Mr. Tom Scallon to be converted to one hundred fifty-six thousand (156,000) shares of the to be merged company EKIDnetwork.com, Inc." As collateral for the loan Darmstadter provided Little with a stock certificate for 100,000 shares of restricted stock in The Children's Beverage Group, Inc. (the "Certificate").
- 9) In or about January 2000, Little offered to Youkhana and other members of Youkhana's family (the "Investors") an opportunity to buy "pre-IPO" shares in EKID. Little said that he was negotiating a deal with the President of EKID to buy 100,000 shares at \$1.00 per share, of which he would personally buy 50,000 shares and sell the remaining 50,000 shares.
- 10) In or about February 2000, Investors purchased 15,000 shares of stock in EKID at \$1.00 per share. Investors purchased the shares with checks (the "Checks") made payable to Little Bell.
- 11) On or about February 10, 2000, Little sent Investors a memorandum (the "Memo") regarding Little's purchase of a convertible note for \$50,000 which would be converted to shares of the to be merged company EKID.
- 12) In the Memo, Little promised to issue a letter of direction to the company's transfer agent AST, Inc., to issue the appropriate number of shares to each Investor. The timetable attached to the Memo indicated that the shares would be received around February 28, 2000.
- 13) The Memo also indicated that after the completion of the reverse merger the number of available free trade shares (street stock) of EKID would be

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approximately 50,000 shares. The timetable attached to the Memo indicated that the stock would go public around March 6-15, 2000.

- 14) On or about February 21, 2000, Little sent to Investors receipts for their Checks and assignments of their respective shares of Little's rights and interests in the Certificate.
- 15) Within two months of the Investor's purchases, Darmstadter learned that Little had offered and sold shares of EKID to Investors (the "Sale").
- 16) Darmstadter knew or should have known that Little had used the proceeds of the Sale to purchase the Promissory Note.
- 17) Darmstadter knew that the Sale to the Investors would invalidate the claim of exemption from registration for the transactions.
- 18) Despite this knowledge, Darmstadter did not undertake any course of conduct to clarify that Little was acting on neither the behalf of Darmstadter nor EKID.
- 19) Furthermore, despite receiving the proceeds from the Sale, Darmstadter did not inform the Investors that the EKID shares would not be available to the Investors.
- 20) Respondent Darmstadter, as president, failed to issue any shares of EKID to Little or the Investors.
- 21) Investors made several attempts to contact Little and Little Bell for their stock certificates or the return of their investment, but Little and Little Bell failed to provide any stock certificates for their shares in EKID.
- 22) Section 2.1 of the Illinois Securities Law of 1953 [815 ILCS 5/1 et seq.] (the "Act") provides, inter alia, that a "security" means any stock, note or evidence of indebtedness.
- 23) The Promissory Note described in paragraph 8 is evidence of indebtedness as defined under the Act.
- 24) The shares in EKID described in paragraphs 9-10 are a security as defined under the Act.
- 25) Section 5 of the Act provides, inter alia, that all securities except those exempt under Section 3 of the Act, or offered and sold in transactions exempt under Section 4 of the Act, shall be registered with the Secretary of State by filing the proper application prior to their offer or sale in or from the State of Illinois.

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- 26) The activities detailed in paragraphs 8 and 9-14 constitutes an offer and a sale under Section 2.5a and Section 2.5 of the Act.
- 27) Section 12.A of the Act provides, inter alia, that it shall be a violation of the Act for any person to offer or sell any securities except in accordance with the provisions of the Act.
- 28) Section 12.D of the Act provides, inter alia, that it is a violation of the Act for any person to fail to file with the Secretary of State, Securities Department any required application, report, or document.
- 29) At all times relevant hereto, the securities referenced in paragraphs 8 and 9-14 were offered for sale and sold at a time when this security did not have the proper application on file at the Secretary of State.
- 30) Children's Technology Group Inc. maintained a bank account at Johnson Bank¹, Account 1300040359 (the "Account"). The sole signatory on the Account was Jon Darmstadter.
- 31) On February 10, 2000, the Account had a balance of \$359.00.
- 32) On or about February 10, 2000, Darmstadter wrote three checks from the Account. These checks were: check number 1003, payable to Jon Darmstadter in the amount of \$5,000.00, check number 1004, payable to the Children's Technology Group in the amount of \$5,000.00 and check number 1005, payable to Jon Darmstadter in the amount of \$35,000.00.
- 33) On or about February 11, 2000, Darmstadter deposited the check provided by Little for the purchase of the Note into the Account, thus bringing the balance to \$50,356.00.²
- 34) On or about February 14, 2000, check number 103 was processed by The Private Bank and Trust Co (successor to Johnson Bank).
- 35) On or about February 16, 2000, check number 104 and 105 were processed by The Private Bank and Trust Co (successor to Johnson Bank).
- 36) Despite the fact that Darmstadter had acknowledged in writing (the "Written Acknowledgment") that "the proceeds [*of the Promissory Note*] were to be used for the purchase of a note from Mr. Tom Scallon", the transactions described in

¹ On February 11, 2000 Private Bank and Trust Company acquired Johnson Bank.

² On February 11, 2000 the account was also charged a \$3.00 cancelled check fee.

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paragraphs 22-27 paid Darmstadter \$40,000.00 of the \$50,000.00 proceeds from the Promissory Note.

- 37) Darmstadter testified that the \$40,000.00 withdrawn from the account represented “reimbursement of past expenses he incurred in the formation of EKID.”
- 38) Darmstadter also testified that the “deal” to purchase the Promissory Note from Mr. Tom Scallon never occurred.
- 39) Darmstadter’s statements and the Written Acknowledgement were false and misleading in that he falsely claimed the proceeds were to be used for “the purchase of a note from Mr. Tom Scallon,” when in fact, \$40,000.00 of the \$50,000.00 was used to satisfy outstanding checks written to Darmstadter prior to the transaction.
- 40) Section 12.F of the Act provides, inter alia, that it shall be a violation of the Act for any person to engage in any transaction, practice or course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof.
- 41) Section 12.G of the Act provides, inter alia, that it shall be a violation of the Act for any person to obtain money or property through the sale of securities by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.
- 42) Section 12.H of the Act provides, inter alia, that it shall be a violation of the Act for any person to sign or circulate any statement, prospectus, or other paper or document required by any provision of this Act or pertaining to any security knowing or having reasonable grounds to know any material representation therein contained to be false or untrue.
- 43) Section 12.I of the Act provides, inter alia, that it shall be a violation of the Act for any person to employ any device, scheme or artifice to defraud in connection with the sale or purchase of any security, directly or indirectly.
- 44) In or about January 2000, Little offered to Youkhana and other members of Youkhana’s family (the “Investors”) an opportunity to buy “pre-IPO” shares in EKIDnetwork.com, Inc. (“EKID”). Little said that he was negotiating a deal with the President of EKID to buy 100,000 shares at \$1.00 per share, of which he would personally buy 50,000 shares and sell the remaining 50,000 shares.

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- 45) On or about February 10, 2000, Little sent Investors a memorandum (the "Memo") regarding Little's purchase of a convertible note for \$50,000.00 which would be converted to shares of the to be merged company EKID.
- 46) In the Memo, Little promised to issue a letter of direction to the company's transfer agent, AST, Inc., to issue the appropriate number of shares to each Investor. The timetable attached to the Memo indicated that the shares would be received around February 28, 2000.
- 47) The Memo also indicated that after the completion of the reverse merger the number of available free trade shares (street stock) of EKID would be approximately 50,000 shares. The timetable attached to the Memo indicated that the stock would go public around March 6-15, 2000.
- 48) In or about February 21, 2000, Little sent to Investors receipts for their Checks and assignments of their respective shares of Little's rights and interests in the Certificate.
- 49) Within two months of the purchase, Darmstadter learned that Little had offered and sold shares of EKID to Investors.
- 50) Darmstadter knew or should have known that the information that Little provided the Investors was false or misleading.
- 51) Darmstadter knew or should have known that Little had used the proceeds of that sale to purchase the Promissory Note.
- 52) Despite this knowledge, Darmstadter did not undertake any course of conduct to clarify that Little was acting on neither the behalf of Darmstadter nor EKID.
- 53) Furthermore, despite receiving the proceeds from the sale, Darmstadter did not inform the Investors that the EKID shares would not be available to the Investors.
- 54) On or around June 3, 2003, the Illinois Securities Department (the "Department") issued a Temporary Order of Prohibition alleging Jon Darmstadter and others violated the Illinois Securities Act by engaging in the fraudulent sale of unregistered securities of EKID.³
- 55) On or around June 18, 2003, the United States Securities and Exchange Commission (the "SEC") filed a complaint in the United States District Court, Northern District of Illinois, Eastern Division (03 C 4166 Securities Exchange Commission vs. Jon A. Darmstadter (the "SEC Action")).⁴

³ A copy is attached as Exhibit A.

⁴ A copy is attached as Exhibit B.

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- 56) The SEC Action alleged violations under several federal securities laws including the anti-fraud provisions of the Securities Exchange Act of 1934.
- 57) Among other relief, the SEC Action requested injunctive relief that sought to bar Darmstadter from acting as an officer or director of any publicly held company.
- 58) On or about August 19, 2003, Zkid filed a form 10-QSB which included quarterly financial statements for Zkid for the period ending June 30, 2003.
- 59) Darmstadter knew or should have known the financial statements filed were misleading in that the financial statements omitted to disclose the Department's Temporary Order of Prohibition, the SEC Action, and the potential that Zkid's current CEO and CFO could be barred from holding those positions.
- 60) Despite this, Darmstadter signed a Sarbanes-Oxley Certification that stated:
I, Jon Darmstadter, certify that:
- (1) I have reviewed this quarterly report on Form 10-QSB of Zkid Network Company, ("Registrant").
 - (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (Omitted material)⁵
By: /s/ Jon Darmstadter
- Jon Darmstadter
Chief Executive Officer
- 61) Darmstadter knew or should have known that the Sarbanes-Oxley Certification would be widely circulated and available for public viewing on the Electronic Data Gathering, Analysis, and Retrieval system ("EDGAR") maintained by the SEC.

WHEREAS, by means of the Stipulation Respondent has acknowledged, without admitting or denying the averments, that the following shall be adopted as the Secretary of State's Conclusions of Law:

- 1) Respondent Darmstadter violated Sections 12.A., 12.D, 12.F, 12.G, 12.H and 12.I. of the Act.

WHEREAS, Section 11.F(6) of the Act provides that the Secretary of State, after notice and opportunity for a hearing may, in his discretion, enter into an agreed settlement, stipulation

⁵ A copy of the complete certification is attached as Exhibit C.

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or consent order in accordance with the provisions of The Illinois Administrative Procedures Act, as amended;

WHEREAS, Respondent Darmstadter has agreed that he shall be PROHIBITED from offering or selling securities in or from the State of Illinois EXCEPT in compliance with the Act; and

WHEREAS, Respondent acknowledges and agrees that he shall deposit the sum total of Fifty Thousand dollars (\$50,000.00) into the Henderson & Lyman Client Trust Fund. The Department shall provide Henderson & Lyman with the contact information and pro rata amount for each Investor. Respondent, via Henderson & Lyman, shall pay said pro rata amount to each investor within ten (10) days of receipt of said Investor's contact information. Said sum shall be payable by means of a check coming from Henderson & Lyman's Client Trust Fund made to the order of the individual Investors. The Department will have one hundred eighty (180) days from the date of the Stipulation to Enter Consent Order of Prohibition (the "Stipulation") to provide Respondent with Investors' contact information. After one hundred eighty (180) days from the entry of the Stipulation, any amount due any Investor who either refuses payment or otherwise fails to respond to efforts to notify them shall be remitted to the Office of the Secretary of State, Investor Education Fund as reimbursement to cover the cost of investigation of this matter. Said sum shall be payable by means of a check coming from Henderson & Lyman's Client Trust Fund made to the order of the Secretary of State, Investor Education Fund.

WHEREAS, Respondent acknowledges and agrees that he shall pay a fine of Ten Thousand dollars (\$10,000) to the Office of the Secretary of State, Securities Audit and Enforcement Fund. Said sum shall be payable by means of certified or cashier's check and made to the order of the Secretary of State, Securities Audit and Enforcement Fund and shall be due concurrent with the entry of the Consent Order.

WHEREAS, Respondent acknowledges and agrees that he shall refrain from and forego selling any of his security interests in Zkid until fifteen (15) days after Zkid publicly discloses the nature of this matter and the Consent Order.

WHEREAS, Respondent acknowledges and agrees that he shall refrain from and forego serving as an officer or director of any public company UNLESS and UNTIL said company publicly discloses the nature of this matter and the Consent Order.

WHEREAS, Respondent acknowledges and agrees that he shall refrain from and forego serving as an officer or director of any company that engages in the private or exempt offer of securities UNLESS and UNTIL said company publicly discloses the nature of this matter and the Consent Order in any written prospectus or other written documentation.

WHEREAS, the Securities Department has recommended and the Secretary of State, by and through his designated representative has determined that the matter related to the aforesaid formal hearing may be dismissed without further proceeding.

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NOW, THEREFORE, IT IS ORDERED THAT:

1. The foregoing allegations and Conclusion of Law, which by means of the Stipulation Respondent has acknowledged shall be adopted as the Secretary of State's Findings of Fact and Conclusion of Law, shall be and hereby are adopted as the Secretary of State's Findings of Fact and Conclusion of Law.
2. Respondent shall be and is PROHIBITED from issuing, offering or selling any securities in or from the State of Illinois, EXCEPT in compliance with the Act.
3. The Respondent shall deposit the sum total of Fifty Thousand dollars (\$50,000.00) into the Henderson & Lyman Client Trust Fund. The Department shall provide Henderson & Lyman with the contact information and pro rata amount for each Investor. Respondent, via Henderson & Lyman, shall pay said pro rata amount to each investor within ten (10) days of receipt of said Investor's contact information. Said sum shall be payable by means of a check coming from Henderson & Lyman's Client Trust Fund made to the order of the individual Investors. The Department will have one hundred eighty (180) days from the date of the Stipulation to Enter Consent Order of Prohibition (the "Stipulation") to provide Respondent with Investors' contact information. After one hundred eighty (180) days from the entry of the Stipulation, any amount due any Investor who either refuses payment or otherwise fails to respond to efforts to notify them shall be remitted to the Office of the Secretary of State, Investor Education Fund as reimbursement to cover the cost of investigation of this matter. Said sum shall be payable by means of a check coming from Henderson & Lyman's Client Trust Fund made to the order of the Secretary of State, Investor Education Fund.
4. The Respondent shall pay a fine of Ten Thousand dollars (\$10,000) to the Office of the Secretary of State, Securities Audit and Enforcement Fund. Said sum shall be payable by means of certified or cashier's check and made to the order of the Secretary of State, Securities Audit and Enforcement Fund and shall be due concurrent with the entry of the Consent Order.
5. Respondent shall refrain from and forego selling any of his security interests in Zkid until fifteen (15) days after Zkid publicly discloses the nature of this matter and the Consent Order.
6. Respondent shall refrain from and forego serving as an officer or director of any public company UNLESS and UNTIL said company publicly discloses the nature of this matter and the Consent Order.
7. Respondent shall refrain from and forego serving as an officer or director of any company that engages in the private or exempt offer of securities UNLESS and

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UNTIL said company publicly discloses the nature of this matter and the Consent Order in any written prospectus or other written documentation.

8. The Department shall retain jurisdiction over this proceeding for the sole purpose of enforcing the terms and provisions of the Stipulation referenced herein.
9. If Respondent defaults on any of the obligations set forth in this Order, the Department may, at its sole discretion:
 - 1) Vacate this Order and proceed with an administrative hearing on this matter upon ten (10) days notice to the Respondent,
 - 2) Take an action to enforce the terms of this Order, and
 - 3) Take an action alleging violations of this Order.
10. The formal hearing scheduled in this matter shall be and hereby is dismissed without further proceedings.

ENTERED: This 2nd day of June, 2004.



Jesse White
Secretary of State
State of Illinois