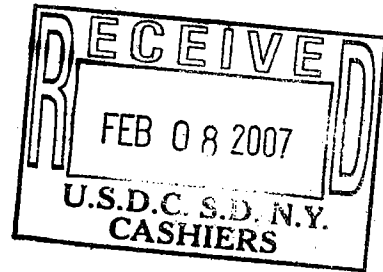


**Mark K. Schonfeld  
Regional Director (MS-2798)  
Attorney for Plaintiff  
SECURITIES AND EXCHANGE COMMISSION  
Northeast Regional Office  
3 World Financial Center, Room 4300  
New York, New York 10281  
(212) 336-1020**



**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK**

**SECURITIES AND EXCHANGE COMMISSION,**

**Plaintiff,**

**-against-**

**ARAGON CAPITAL MANAGEMENT, LLC,  
ARAGON PARTNERS, LP, ZVI ROSENTHAL,  
AMIR ROSENTHAL, AYAL ROSENTHAL,  
OREN ROSENTHAL, DAVID HEYMAN,  
HEYMAN & SON INVESTMENT  
PARTNERSHIP LP, YOUNG KIM,  
and BAHRAM DELSHAD,**

**Defendants,**

**and**

**EFRAT ROSENTHAL and RIVKA ROSENTHAL,**

**Relief Defendants.**

07 Civ. \_\_\_\_ ( )

**COMPLAINT**

Plaintiff Securities and Exchange Commission (the "Commission") alleges the following against Defendants Aragon Capital Management, LLC ("Aragon Capital"), Aragon Partners, LP ("Aragon Partners"), Zvi Rosenthal ("Zvi"), Amir Rosenthal ("Amir"), Ayal Rosenthal ("Ayal"), Oren Rosenthal ("Oren"), David Heyman ("Heyman"), Heyman & Son Investment Partnership, LP ("Heyman & Son"), Young

Kim (“Kim”), and Bahram Delshad (“Bahram”) (collectively, the “Defendants”), and against Efrat Rosenthal (“Efrat”) and Rivka Rosenthal (“Rivka”) (collectively, the “Relief Defendants”):

## SUMMARY

1. This case involves a brazen scheme of serial insider trading orchestrated by a father and his sons which netted them, their friends, and other relatives at least \$3.7 million. From at least 2001 through November 2005 (the “Relevant Period”), the father, Zvi, a former senior manager at Taro Pharmaceutical Industries, Ltd. (“Taro”), systematically stole, on at least 13 occasions, material, nonpublic information from Taro, traded on it in some instances, and provided it, directly or indirectly, to his sons: Amir, an attorney formerly associated with a large law firm, headquartered in New York; Ayal, an accountant formerly associated with PricewaterhouseCoopers (“PwC”); and Oren, an attorney formerly associated with a large law firm, headquartered in Los Angeles, each of whom traded on the information. The scheme grew to include other relatives and friends, with Amir passing along tips about Taro to his father-in-law, Bahram; his friend Heyman, who was employed by Ernst & Young (“E&Y”); and Kim, his supervisor at Amir’s law firm. Appendix A, attached hereto, illustrates the flow of inside information among the Defendants.

2. In addition to buying and selling Taro stock, the Defendants used the stolen nonpublic material information to purchase or sell sophisticated options contracts that were designed to capitalize on stock price movements, but which would more easily escape detection than purchasing or selling stock. Through strategic but frequent options trading, the Defendants garnered significant gains (or avoided significant losses).

3. As the scheme progressed, Amir created a vehicle through which his family could trade on Taro's nonpublic information without detection. In 2003, Amir created a hedge fund, Aragon Partners, and its investment adviser, Aragon Capital, to pool money from family members to trade in Taro securities. Through Aragon Partners, the Rosenthal Defendants were able to obscure their identities, further distancing themselves from Zvi, the source of their inside information at Taro. Amir also traded in his wife's brokerage account to avoid association of his trading with Zvi.

4. In its later stages, certain of the Defendants broadened the scheme to include trading on nonpublic information stolen from entities other than Taro. On at least two occasions, Ayal and Heyman misappropriated material, nonpublic information concerning impending mergers (that ultimately never materialized) from their respective employers, PwC and E&Y, and tipped Amir with the information. Amir then traded on it. Amir also tipped Kim with the information from Ayal and Heyman, and Kim traded on the information.

5. By this action, the Commission seeks, among other things, an order providing for: permanent injunctive relief against all of the Defendants, the disgorgement of all profits and losses avoided from the unlawful insider trading activity set forth herein, plus prejudgment interest, and civil monetary penalties; and disgorgement of all ill-gotten gains and losses avoided by every Relief Defendant as a result of the insider trading activity set forth herein.

#### **JURISDICTION AND VENUE**

6. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §

77t(b), and Section 21(d) of the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. § 78u(d), for permanent injunctive relief against the Defendants, from engaging in the transactions, acts, practices, and courses of business alleged in this Complaint and for civil penalties pursuant to Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d)(3). The Commission also brings this action pursuant to Section 21A of the Exchange Act, 15 U.S.C. § 78u-1, for civil penalties against the Defendants under the Insider Trading and Securities Fraud Enforcement Act of 1988. In addition, the Commission seeks an order barring Zvi 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. § 781, 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), and for such other relief as the Court may deem appropriate.

7. Venue lies in this Court pursuant to Sections 20(b) and 22(a) of the Securities Act, 15 U.S.C. §§ 77t(b), 77v(a), and Sections 21(d), 21A, and 27 of the Exchange Act, 15 U.S.C. §§ 78u(d), 78u-1, 78aa. Certain of the acts, practices, transactions and courses of business alleged herein occurred within the Southern District of New York, and Amir, Ayal, Kim and Heyman lived and worked within this District. Several of the communications between and among the Defendants were made from or within this District and several of the trades were placed from the offices of Amir, Kim, Ayal and Heyman within this District.

8. Defendants, directly or indirectly, have made use of the means or instrumentalities of interstate commerce, or of the mails, or the facilities of a national

securities exchange in connection with the transactions, acts, practices and courses of business alleged herein.

## DEFENDANTS

9. **Zvi**, age 62, resides in Tenafly, New Jersey. Zvi is married to Rivka and is the father of Amir, Ayal, Oren, and Efrat. Zvi was employed by Taro from 1994 to February 2006. From 1994 to 1997, Zvi worked at Taro Israel as Assistant to the Senior Vice President and Chief Operating Officer of Taro Israel, and supervised production at Taro Israel's Haifa, Israel plant. In 1997, he moved to Taro USA and began coordinating all of Taro's manufacturing worldwide as Taro's Vice President of Materials Management and Logistics. In 1998, the United States Attorney's Office for the Eastern District of New York charged Zvi with making false claims to the United States Department of Defense in violation of 18 U.S.C. § 267 in connection with Zvi's work (prior to joining Taro) as Operations Manager at Isratex, Inc., a company that manufactured military uniforms and clothing under contract with the United States military. On April 14, 2000, Zvi pleaded guilty to a single felony count of false claims in violation of 18 U.S.C. § 267. He was fined \$20,000 and sentenced to three years' probation, including six months of home confinement with electronic monitoring, although he was permitted to continue working at Taro. During the Relevant Period, Zvi engaged in certain of the transactions referenced herein through his Ameritrade account.

10. **Amir**, age 29, resides in New York, New York. Amir is Zvi's middle son. Amir graduated from New York University School of Law in 2004, and was admitted to the New York Bar in 2006. Amir was the managing member of Aragon Capital, the investment adviser to Aragon Partners, the Rosenthal family hedge fund, and

traded for the benefit of himself and his family in the Aragon Partners' brokerage account. In September 2004, Amir was hired as an associate in the Structured Finance group at a large law firm headquartered in New York, New York. During the Relevant Period, Amir made certain of the transactions referenced herein through three accounts: (i) his Custodial Account at Brown & Co., an account originally set up for him by his father, Zvi; (ii) his Ameritrade account; and (iii) his wife Noga Delshad's ("Noga") Ameritrade account.

11. **Ayal**, age 26, resides in New York, New York. Ayal is Zvi's youngest son. Ayal graduated from Rutgers College with a bachelor's degree in management in 2001, and began working as an Associate at PwC. In 2002, he received a Masters degree in accounting from the University of Texas (Austin) while working at PwC. Ayal is a licensed Certified Public Accountant. In the spring of 2005, he moved from PwC's Audit Services Group into the Transaction Services Group. As an employee of PwC, Ayal owed contractual, fiduciary and other duties of trust and confidence to PwC. As a CPA, Ayal held a professional duty to maintain the confidentiality of his clients' information. Ayal resigned from PwC on May 4, 2006. During the Relevant Period, Ayal made certain of the trades referenced herein through Ayal's Custodial Account at Brown & Co., and through his Ameritrade account.

12. **Oren**, age 31, resides in Los Angeles, California. Oren is Zvi's eldest son. Oren graduated from the University of Southern California Law School in 2003 and began working as a litigation associate with the New York office of a large law firm headquartered in Los Angeles, California. He was admitted to the New York Bar in 2004. In December 2005, Oren transferred to the law firm's Los Angeles office, where

he worked on general commercial litigation, white collar criminal defense, and internal investigations until he resigned in January 2007. He was admitted to the bar of California in June 2006. During the Relevant Period, Oren made certain of the trades referenced herein through his Custodial Account at Brown & Co. and through his Ameritrade account.

13. **Heyman**, age 29, resides in New York, New York. Heyman graduated from Rutgers College in 1999 and immediately began working at E&Y as an entry-level auditor. While working at E&Y, Heyman obtained a Masters in Accounting from the University of Virginia, and became a licensed Certified Public Accountant in 2003. As an employee of E&Y, Heyman owed contractual, fiduciary and other duties of trust and confidence to E&Y. As a CPA, Heyman held a professional duty to maintain the confidentiality of his clients' information. Heyman resigned from E&Y on January 27, 2006. At the time he left, Heyman was a Senior Manager in the On-Call Consulting Group. During the Relevant Period, Heyman made certain of the transactions referenced herein through his Ameritrade account, and through his Heyman & Son account described below.

14. **Kim**, age 34, resides in Union City, New Jersey. Kim graduated from Cornell University School of Law in 1998 and, in 2000, began working at the New York-based law firm where Amir later worked. He was admitted to the New York Bar in 2000. In 2002, he transferred to the firm's Structured Finance Group where he is currently employed. From approximately September 2004 until June 2006, Kim supervised Amir. During the Relevant Period, Kim made certain of the transactions referenced herein through his Ameritrade account.

15. **Bahram**, age 56, resides in Englewood Cliffs, New Jersey. Bahram, a retired jewelry shop owner, is Amir's father-in-law. During the Relevant Period, Bahram made certain of the trades through his Ameritrade brokerage account.

16. **Aragon Capital** is a Delaware limited liability company set up by Amir in 2003 to act as the General Partner of, and investment adviser to, Aragon Partners.

17. **Aragon Partners** is a Delaware limited partnership set up by Amir in 2003 as a hedge fund, and the vehicle through which he placed illicit trades using stolen Taro nonpublic information. Amir, Oren, Ayal, Efrat and Rivka each are limited partners in Aragon Partners and each has a 20% ownership stake. Aragon Partners was funded by transfers from each of Zvi's children's Custodial Accounts, and by separate deposits from each of the limited partners. Amir made many of the illicit trades described below through Aragon Partners' CyberTrader, Inc. account. In all of the trades executed by Amir in the Aragon Partners' account, he acted as the managing member of Aragon Capital.

18. **Heyman & Son** is a limited partnership and hedge fund formed by Heyman in 2005 and funded with money from Heyman's family. Heyman is the General Partner and his father is the only limited partner. During the Relevant Period, Heyman made certain of the trades referenced herein through Heyman & Son's Ameritrade brokerage account.

#### **RELIEF DEFENDANTS**

19. **Efrat**, age 24, resides in Tel Aviv, Israel. She is Zvi and Rivka's daughter and is a limited partner in Aragon Partners. Efrat received a distribution of ill-gotten gains from Aragon Partners in approximately May 2005. In addition, during the

Relevant Period, Amir made certain of the transactions referenced herein through Efrat's Custodial Account at Brown & Co.

20. **Rivka**, age 60, resides in Tenafly, New Jersey. She is Zvi's wife, the mother of Amir, Oren, Ayal and Efrat, and a limited partner in Aragon Partners. She received a distribution of ill-gotten gains from Aragon Partners in approximately May 2005.

#### **RELEVANT ENTITY**

21. **Taro** is an Israeli corporation with its principal place of business in Yakum, Israel. Taro develops, manufactures, and markets generic prescription and over-the-counter pharmaceutical products, and active pharmaceutical ingredients, primarily in the United States, Canada, and Israel. Taro earns most of its profits from sales in the United States market. Taro USA is a United States-based, wholly owned subsidiary of Taro operating in Hawthorne, New York. At all times during the Relevant Period, Taro's shares were registered under Section 12(g) of the Securities Exchange Act of 1934 and quoted on the Nasdaq National Market under the symbol TARO. At all times during the Relevant Period, Taro was a foreign private issuer and filed Forms 20-F annually.

## FACTS

22. Throughout the Relevant Period, the Defendants stole material, nonpublic information and traded on it. The Defendants used information stolen from Zvi's employer, Taro; Ayal's employer, PwC; and Heyman's employer, E&Y.

### A. The Taro Insider Trading Scheme

#### Zvi's Access to Information at Taro

23. During the Relevant Period, Zvi was employed at Taro as Vice President of Materials Management and Logistics. In that position, he was responsible for the manufacture and distribution process of all of the products Taro sells, including raw material procurement, inventory management, and production scheduling. To coordinate Taro's production and distribution, and ensure that Taro matched product demand with production and inventory levels, Zvi had access to daily electronic sales and order data for the U.S. market ("Sales Reports"). In 2001, he participated in daily sales data meetings ("Daily Meetings"). Because Zvi had real-time access to Taro's sales data, he had early knowledge of the company's earnings prospects.

24. Zvi's production and distribution responsibilities also required that he be alerted to the progress of applications Taro had made to the U.S. Food & Drug Administration ("FDA") for approval of new products Taro wished to market. Zvi was a member of Taro's Product Launch Committee ("PLC"). The PLC met weekly to discuss the status of various FDA approval processes, and coordinated production of new products in the FDA pipeline with Zvi, so that he could coordinate production of batches for the FDA and ultimately ensure rapid initial distribution of the product on the day Taro obtained FDA approval. Zvi also met regularly with Taro's Director of Regulatory

Affairs, who would provide Zvi with the company's changing estimates of expected FDA approval for each pending drug or product so that Zvi could begin drug production as approval neared.

25. Zvi's position gave him access to Taro's most significant nonpublic information: financial information, including current sales and earnings projections, and FDA approval of new products. Beginning in 2001, Zvi passed that information on to his sons, and he, they and their friends, traded on it.

#### **Taro's Trading and Confidentiality Policies**

26. Throughout the Relevant Period, Taro's "Statement of Policy Concerning Trading in Securities of the Company" (the "Trading Policy") prohibited Zvi or any member of his family from trading in Taro securities during specific periods before and after public earnings announcements (the "Blackout Period"). Taro's Trading Policy prohibited directors, officers, and employees of Taro (and each of their husbands, wives, parents, and children) from trading Taro securities at any time, except during a ten-day window each quarter beginning the third business day after Taro publicly announced its quarterly financial results, and ending the thirteenth business day following the announcement. Virtually all of the Rosenthal Defendants' trades prior to Taro's earnings announcements violated Taro's Trading Policy.

27. Throughout the Relevant Period, Taro's Disclosure Policy stated that "employees, officers and directors must not discuss confidential, nonpublic information about [Taro] with anyone outside [Taro]." In its Trading Policy, Taro similarly prohibited directors, officers and employees from "disclosing, or otherwise passing on to

anyone any information concerning [Taro] and its plans and prospects of which [the directors, offices and employees became] aware through [their] work or otherwise.”

28. From approximately May 2001 through November 2005, the Defendants engaged in a scheme to profit from trading Taro securities in advance of Taro announcements concerning five FDA approvals of new drugs or products and eight Taro earnings announcements, yielding more than \$3.7 million in illicit profits and avoided losses:

<b>Date</b>	<b>Announcement</b>	<b>Total Profits/ Losses Avoided</b>
May 29, 2001	FDA Approval of CB Cream	\$121,335
July 19, 2001	Earnings Announcement	\$231,702
October 18, 2001	Earnings Announcement	\$188,898
November 26, 2002	FDA approval of Econazole Nitrate Cream 1%	\$33,233
February 20, 2003	Earnings Announcement	\$36,481
April 16, 2003	Earnings Announcement	\$20,869
April 29, 2004	Earnings Announcement	\$5,411
July 29, 2004	Earnings Announcement	\$1,536,120
August 20, 2004	FDA Approval of Loratadine Syrup	\$56,231
March 2, 2005	FDA Approval for Miconazole Nitrate Vaginal Cream, 4%	\$340,576
April 14, 2005	FDA Approval for Ciclopirox Olamine Cream	\$292,983
April 26, 2005	Earnings Announcement	\$132,486
November 17, 2005	Earnings Announcement	\$750,922
	<b>Total Trading Profits and Losses Avoided</b>	<b>\$3,747,247</b>

29. Three detailed examples of the Defendants’ insider trading in Taro securities are described below. The remaining announcements are described in chronological order.

### **November 17, 2005 Earnings Announcement**

30. At 7:00 a.m. on November 17, 2005, Taro announced its earnings for the third quarter of 2005. They fell short of market analyst expectations, with Taro reporting third quarter sales of \$72.5 million and net income of \$2.1 million, or \$0.07 per share, 47% lower than the \$4.0 million Taro reported during the third quarter of 2004. This information was material.

31. A month earlier, on October 10, 2005, Taro responded to inquiries from investors, analysts and reporting agencies by publicly announcing that it would release its quarterly earnings results in early November 2005. On October 17, Taro's finance department generated the first draft of consolidated third quarter financial results. On November 8, Taro issued a press release announcing that it would not release third quarter earnings until November 17, 2005. By virtue of his access to daily Sales Reports, Zvi knew that the company's sales levels were low compared with previous quarters, and understood the impact that would have on Taro's earnings.

32. During the time preceding Taro's earnings announcement for the third quarter of 2005, Zvi communicated regularly, directly or indirectly, with Amir, Oren, and Ayal, and provided them with the material, nonpublic information he possessed concerning Taro's quarterly results. Amir passed the tip to Heyman and Kim. As a result of the information Zvi supplied, Amir, Oren, Ayal, and Heyman liquidated bullish positions they had previously established in Taro stock or options, and established a bearish strategy, using the knowledge that the price of Taro stock or options would decline after release of Taro's weak 2005 third quarter earnings. Defendants made the following trades surrounding the November 17, 2005 earnings announcement: