

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff

v.

MATTHEW R. WELCH
and JAMES C. HORNE,

Defendants.

JUDGE RONALD GUZMAN

MAGISTRATE JUDGE
GERALDINE SOAT BROWN

00C 5935

Civil Action No.

U.S. DISTRICT COURT
CLERK

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COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission") alleges that:

SUMMARY

1. This action involves a fraud by the Defendant Matthew R. Welch ("Welch"), former Vice President and Controller of OakGrigsby, Inc. ("OakGrigsby"), and Defendant James C. Horne ("Horne"), OakGrigsby's former President and Chief Executive Officer ("CEO"). Defendants Welch and Horne engaged in a fraudulent scheme to falsely overstate OakGrigsby's financial results and thereby cause Oak Industries, Inc. ("Oak"), a public company and the corporate parent company to OakGrigsby, to materially overstate its financial results in public announcements and financial statements filed with the Commission.

2. In or about and between July 1995 and January 1997, Welch made, or caused to be made, a series of false and fraudulent accounting entries on OakGrigsby's books.

3. During his employment at OakGrigsby, Horne both approved of these false and fraudulent accounting entries and knowingly provided Oak with monthly

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operations reports that incorporated the results of these false and fraudulent accounting entries.

4. Welch and Horne inflated reported profits to ensure that OakGrigsby met budgeted operating profits. Because OakGrigsby showed operating profits greater than 80% of budgeted operating profits, both Welch and Horne received a bonus for 1995.

5. OakGrigsby's financial results were consolidated with those of other Oak divisions and incorporated in Oak's periodic reports and press releases. As a result of Welch and Horne's scheme, Oak reported net income of approximately \$4.18 million for the fourth quarter of 1995, when, in fact, Oak's actual net income for the fourth quarter of 1995 was approximately \$3.73 million. As a result of Welch's continuation of the scheme, Oak reported net income of approximately \$18.42 million for the first quarter of 1996, when, in fact, Oak's actual net income for the first quarter of 1996 was approximately \$17.97 million; \$7.6 million for the second quarter of 1996, when, in fact, Oak's actual net income for the second quarter of 1996 was approximately \$7.11 million; and \$8.27 million for the third quarter of 1996, when, in fact, Oak's actual net income for the third quarter of 1996 was approximately \$7.77 million.

6. Oak discovered the fraud in January 1997, and on February 10, 1997, Oak filed amended quarterly reports on Form 10-Q ("10-Q") for the first three quarters of 1996. The amended 10-Q for the first quarter of 1996 also included adjustments related to the income for the fourth quarter of 1995.

7. By engaging in the transactions and practices alleged in this Complaint, Welch and Horne violated Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Exchange Act Rules 10b-5 and 13b2-1; Welch violated Section 13(b)(5) of the Exchange Act; and both Welch and Horne aided and abetted Oak's violations of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 13a-1, 13a-13, and 12b-20.

8. Unless enjoined, the Defendants are likely to commit such violations in the future. Accordingly, the Commission seeks entry of a permanent injunction against the Defendants prohibiting further violations of the federal securities laws. The Commission also seeks disgorgement of the bonuses Welch and Horne received during their scheme, plus prejudgment interest thereon, and civil monetary penalties.

JURISDICTION

9. This Court has jurisdiction over this action pursuant to Sections 21 and 27 of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78u and 78aa]. Additionally, the acts and practices alleged herein occurred primarily within the Northern District of Illinois.

10. The Commission brings this action pursuant to the authority conferred upon it by Sections 21(d) and (e) of the Exchange Act [15 U.S.C. §§ 78u(d) and (e)].

11. In connection with the conduct alleged herein, the Defendants, directly and indirectly, have made use of the means or instrumentalities of interstate commerce, of the mails, the facilities of national securities exchanges, and/or of the means and instruments of transportation or communication in interstate commerce.

PARTIES AND RELEVANT ENTITIES

12. Welch, age 45, a resident of Naperville, Illinois, was the Vice President and Controller of OakGrigsby from October 1993 to January 5, 1997, when he was fired as a result of the activities and practices described herein.

13. Horne, age 51, a resident of Lake Bluff, Illinois, was the President and CEO of OakGrigsby from June 1992 until March 1996, when he resigned.

14. At all relevant times, OakGrigsby was located in Sugar Grove, Illinois and was a division of Oak, a designer, manufacturer and distributor of telecommunications, electronics, and laser optics products. Oak, the corporate parent of OakGrigsby, was, at all relevant times, a Delaware corporation with its principal place of business in Waltham, Massachusetts. Oak's common stock was registered with the Commission

pursuant to Section 12(b) of the Exchange Act and its shares were traded on the New York and Pacific Stock Exchanges. Oak was acquired by Corning, Inc. in January, 2000 and its shares ceased trading.

FACTS

OakGrigsby's Inability to Meet Budget Targets

15. In the fall of 1994, Welch, Horne and Oak corporate management agreed upon a budget for OakGrigsby's operating profits for 1995 that required OakGrigsby to increase revenue and earnings by approximately 10% over prior years.

16. By June 21, 1995, Horne and Welch both knew that OakGrigsby anticipated losses for July of 1995.

Welch and Horne's Scheme – Fraudulent Accounting Entries

17. In early August 1995, Welch and Horne discussed how to report a profit for OakGrigsby for July 1995.

18. In order to make OakGrigsby's books reflect a profit, rather than the previously projected loss, for July 1995, Welch, or OakGrigsby employees acting at his direction, made revisions to OakGrigsby's books. However, Welch knew that no changed circumstances supported these revisions. Because of these accounting revisions, OakGrigsby's July 1995 monthly operations report falsely reported an operating profit of approximately \$40,000. Horne, who prepared OakGrigsby's monthly operations reports, submitted this false July 1995 monthly operations report to Oak.

19. After July 1995, Welch adopted a more systematic method to meet OakGrigsby's budgeted operating profit targets. Welch was aware of an unused general ledger sub-account captioned Accounts Payable-Vendor Returns ("Vendor Returns Account"). The Vendor Returns Account total was aggregated into the amount OakGrigsby reported as its accounts payable liability on its balance sheet. The intended purpose of the Vendor Returns Account was to allow OakGrigsby to offset the asset

value of returned inventory against accounts payable balances. By mid-1995, the Vendor Returns Account was completely inactive.

20. Welch also knew that OakGrigsby only reported a net accounts payable amount, rather than accounts payable details, to Oak and, therefore, he knew that he could make fraudulent entries in the Vendor Returns Account which would not be easily detected.

21. By decreasing accounts payable using the Vendor Returns Account, Welch fraudulently transferred expenses, which should have appeared on OakGrigsby's income statement, to OakGrigsby's balance sheet. By fraudulently transferring expenses to OakGrigsby's balance sheet, Welch concealed certain expenses and fraudulently overstated OakGrigsby's operating profits.

22. Welch, or an OakGrigsby employee acting at his direction, made accounting entries to the Vendor Returns Account, which decreased accounts payable on OakGrigsby's balance sheet and made it appear that OakGrigsby was more profitable than, in fact, it actually was.

23. At various times between August 1995 and February 1996, Welch told Horne that he had been using the Vendor Returns Account to defer expenses on various projects. Welch specifically asked Horne whether they should do this and Horne instructed him to go ahead. Welch told Horne that OakGrigsby had understated expenses in 1995.

Quarter Ended December 31, 1995

24. In December 1995, Welch made fraudulent accounting entries in the Vendor Returns Account to ensure that OakGrigsby reported a profitable fourth quarter for 1995. Those entries concealed and understated various OakGrigsby expenses by transferring expenses such as salaries, shipping, and travel to the Vendor Returns Account. Welch also increased reported operating income by overstating a currency exchange gain. These fraudulent entries increased OakGrigsby's fourth quarter 1995

operating income. Horne submitted a monthly operations report to Oak that incorporated the fraudulent fourth quarter 1995 operating income.

25. OakGrigsby's accounting department also reported fraudulent fourth quarter 1995 income to Oak in other reports, which included additional information used to prepare OakGrigsby's financial statements. These fraudulent operating income results were incorporated into Oak's annual report on 10-K ("10-K") for 1995, which was filed with the Commission on March 21, 1996 and were publicly reported in a press release issued on February 12, 1996. Both the 10-K for 1995 and the press release falsely reported Oak's net income for the fourth quarter of 1995 as approximately \$4.18 million. In fact, Oak's actual net income for the fourth quarter of 1995 was approximately \$3.73 million.

26. These false and fraudulent accounting entries allowed Welch to prepare reports, which reflected that OakGrigsby's operating profit for 1995 was 81% of budget. OakGrigsby's reported operating profits, therefore, exceeded the minimum threshold of 80% of budgeted operating profit that Oak required divisional managers achieve to receive a bonus.

27. Welch and Horne discussed whether they should receive bonuses for 1995. Specifically, Welch voiced concerns to Horne about certain expenses on the balance sheet and recommended that he and Horne not take bonuses for 1995. Horne recommended that he and Welch take their bonuses. Consequently, in or about March 1996, Welch received a \$15,000 bonus and Horne received a \$55,000 bonus.

Quarter Ended March 31, 1996

28. In the first quarter of 1996, Welch again directed Oak employees to make false and fraudulent accounting entries in OakGrigsby's books. As a result of those entries, OakGrigsby reported to Oak that its operating profit for the first quarter of 1996 was \$934,000, when, in fact, OakGrigsby's actual profit for the first quarter of 1996 was approximately \$198,000.

29. Horne and Welch discussed problems meeting forecasts for January and February of 1996 and discussed putting certain costs and expenses on the balance sheet in the first quarter of 1996. Horne and Welch also discussed the possibility of later reversing these expenses as other business plans came to fruition.

30. After Horne resigned, Welch reported OakGrigsby's fraudulent first quarter 1996 operating income to Oak in a monthly operations report. OakGrigsby's accounting department also reported fraudulent first quarter 1996 income to Oak in other reports, which included additional information used to prepare OakGrigsby's financial statements. These fraudulent operating income results were incorporated into Oak's 10-Q for the first quarter of 1996, which was filed with the Commission on April 30, 1996 and were publicly reported in a press release issued on April 18, 1996. Both the 10-Q for the first quarter of 1996 and the press release falsely reported Oak's net income for the first quarter of 1996 as approximately \$18.42 million. In fact, according to Oak's later restatement, Oak's actual net income for the first quarter of 1996 was approximately \$17.97 million.

Quarter Ended June 30, 1996

31. Welch, or an OakGrigsby employee acting at his direction, made additional fraudulent accounting entries in the second quarter of 1996.

32. As a result of Welch's scheme, OakGrigsby's June 1996 monthly operations report to Oak reflected six-month profitability of \$2.123 million or 102% of budget. In fact, OakGrigsby had made a profit of only \$557,000 during the six-month period or 26% of budget.

33. Welch, or an OakGrigsby employee acting at his direction, reported OakGrigsby's fraudulent second quarter 1996 income to Oak in reports which were used to prepare OakGrigsby's financial statements. These fraudulent operating income results were incorporated into Oak's 10-Q for the second quarter of 1996, which was filed with the Commission on July 19, 1996 and were publicly reported in a press release issued on

July 15, 1996. Both the 10-Q for the second quarter of 1996 and the press release falsely reported Oak's net income for the second quarter of 1996 as approximately \$7.6 million. In fact, according to Oak's later restatement, Oak's actual net income for the second quarter of 1996 was approximately \$7.11 million.

Quarter Ended September 30, 1996

34. In the third quarter of 1996, Welch again used the Vendor Returns Account to make fraudulent accounting entries that overstated OakGrigsby's operating profit. OakGrigsby's September 1996 monthly operations report to Oak reflected a nine-month operating profit of \$3.232 million or 98% of budget. In fact, OakGrigsby had made a nine-month operating profit of only \$852,000 or 26% of budget.

35. Welch, or an OakGrigsby employee acting at his direction, reported OakGrigsby's fraudulent third quarter 1996 income to Oak in reports which were used to prepare OakGrigsby's financial statements. These fraudulent operating income results were incorporated into Oak's 10-Q for the third quarter of 1996, which was filed with the Commission on November 14, 1996 and were publicly reported in a press release issued on October 22, 1996. Both the 10-Q for the third quarter of 1996 and the press release falsely reported Oak's net income for the third quarter of 1996 as approximately \$8.27 million. In fact, according to Oak's later restatement, Oak's actual net income for the third quarter of 1996 was approximately \$7.77 million.

Other Falsification of Records

36. During the fourth quarter of 1996, Welch made, or caused to be made, additional false accounting entries in OakGrigsby's books, which included additional false and fraudulent entries in the Vendor Returns Account. The fraudulent fourth quarter results were not publicly released.

37. Welch and Horne both signed a client representation letter to Price Waterhouse, Oak's outside auditors, dated January 19, 1996, falsely stating that they

were not aware of any irregularities involving management or employees who have significant roles in the system of internal accounting control, or involving any other employees, that could have a material effect on financial statements.

Oak's Discovery of the Fraud and Internal Investigation

38. At the beginning of 1997, Welch knew that Oak's auditors would be on-site at OakGrigsby to conduct audit fieldwork. During a visit to OakGrigsby in late 1996, a member of the audit team discussed accounts payable detail with Welch. From this conversation, Welch knew that accounts payable detail would be reviewed during audit fieldwork.

39. Early in the afternoon of January 3, 1997, Horne's successor as OakGrigsby's President and CEO asked Welch why OakGrigsby's initial year-end report for 1996 was late. Welch informed him it looked like OakGrigsby would show a million dollar loss for 1996. When OakGrigsby's President and CEO sought further information, Welch provided a confused and incomplete explanation.

40. Later that afternoon, Welch told Oak's Controller that OakGrigsby's books contained approximately \$1.5 million in "errors" that required adjustments. Later that same evening, Welch sent a facsimile to Oak's Controller proposing \$1.4 million in correcting entries to balance OakGrigsby's books at year-end 1996.

41. On January 5, 1997, Welch prepared a revised schedule listing more than \$2.6 million in adjustments. Oak's corporate management concluded that Welch's adjustments represented the correction of intentional false entries and fired Welch that evening.

42. On February 10, 1997, Oak announced its fourth quarter 1996 net income and disclosed, for the first time, the nature and extent of the problems at OakGrigsby. Oak stock, which had closed at \$21 3/4 the previous Friday, dropped more than 21% in intra-day trading and closed down 1 1/4 points, or 6%, at \$19.50.

FIRST CLAIM

**Fraud in the Purchase and Sale of Securities
(Violations of Exchange Act Section 10(b) and Rule 10b-5)**

43. Plaintiff Commission repeats and realleges paragraphs 1 through 42 above.

44. From at least August 1995 through January 3, 1997, Defendant Welch engaged in fraudulent activities resulting in the material overstatements of income in Oak's public announcements and in its filings with the Commission.

45. From at least August 1995 through March 1996, Defendant Horne engaged in fraudulent activities resulting in the material overstatements of income in Oak's public announcements and in its filings with the Commission.

46. By reason of the foregoing, Defendants Welch and Horne, singly or in concert with others, directly or indirectly, in connection with the purchase or sale of securities, by the use of any means and instrumentalities of interstate commerce, or of the mails, or any facility of any national securities exchange: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices or courses of business which operated or would operate as a fraud or deceit upon any persons, including purchasers or sellers of Oak securities in violation of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. §240.10b-5] thereunder.

47. Defendants Welch and Horne's conduct involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss or significant risk of substantial loss to other persons within the meaning of Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

SECOND CLAIM

**Falsification of Records
(Violations of Exchange Act Rule 13b2-1)**

48. Plaintiff Commission repeats and realleges paragraphs 1 through 42 above.

49. By reason of the foregoing, Defendants Welch and Horne, directly or indirectly, falsified, or caused to be falsified, Oak's books, records and accounts subject to Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)] in violation of Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1].

THIRD CLAIM

**Circumvention of Internal Controls and
Falsification of Accounting Records
(Violations of Exchange Act § 13(b)(5) and Rule 13b2-1)**

50. Plaintiff Commission repeats and realleges paragraphs 1 through 42 above.

51. By reason of the foregoing, Defendant Welch knowingly circumvented Oak's system of internal accounting controls; and, directly or indirectly, falsified, or caused to be falsified, Oak's books, records and accounts in violation of Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] and Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1].

FOURTH CLAIM

**Aiding and Abetting Oak's Reporting Violations
(Aiding and Abetting Violations of Exchange Act § 13(a) and
Rules 12b-20, 13a-1 and 13a-13)**

52. Plaintiff Commission repeats and realleges paragraphs 1 through 42 above.

53. In its 10-K for the year ended December 31, 1995, Oak reported materially false and misleading information for the quarter ended December 31, 1995. Oak also reported materially false and misleading income and other financial information in its 10-Q's for the quarters ended March 31, 1996, June 30, 1996 and September 30, 1996. Each of those filings contained financial statements that materially misstated Oak's net income and other relevant financial information.

54. Defendant Welch knowingly provided substantial assistance to Oak in reporting materially false and misleading income and other financial information in its 1995 10-K for the quarter ended December 31, 1995 and in its 10-Q's for the quarters ended March 31, 1996, June 30, 1996 and September 30, 1996.

55. Defendant Horne knowingly provided substantial assistance to Oak in reporting materially false and misleading income and other financial information in its 10-K for 1995 for the quarter ended December 31, 1995 and in its 10-Q for the quarters ended March 31, 1996.

56. By reason of the foregoing, Defendants Welch and Horne aided and abetted Oak's violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 12b-20, 13a-1, and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13] and, therefore are liable pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)].

FIFTH CLAIM

Aiding and Abetting Oak's Books and Records Violations (Aiding and Abetting Violations of Exchange Act § 13(b)(2)(A))

57. Plaintiff Commission repeats and realleges paragraphs 1 through 42 above.

58. Oak maintained false and misleading books and records, which, among other things, materially overstated the company's net income for the quarters ended December 31, 1995, March 31, 1996, June 30, 1996 and September 30, 1996.

59. Defendant Welch knowingly provided substantial assistance to Oak by causing Oak to keep and maintain false and misleading books and records for the quarters ended December 31, 1995, March 31, 1996, June 30, 1996 and September 30, 1996.

60. Defendant Horne knowingly provided substantial assistance to Oak by causing Oak to keep and maintain false and misleading books and records for the quarters ended December 31, 1995 and March 31, 1996.

61. By reason of the foregoing, Defendants Welch and Horne aided and abetted Oak's violation of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)] and, therefore are liable pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)].

SIXTH CLAIM

Aiding and Abetting Oak's Failure to Maintain Internal Controls (Aiding and Abetting Violations of Exchange Act § 13(b)(2)(B))

62. Plaintiff Commission repeats and realleges paragraphs 1 through 42 above.

63. Defendants Horne and Welch, as OakGrigsby's CEO and Controller, respectively, were responsible for devising and maintaining a system of internal accounting controls at OakGrigsby.

64. Oak failed to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that the Company's transactions were recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles ("GAAP") during the quarters ended December 31, 1995, March 31, 1996, June 30, 1996 and September 30, 1996.

65. Defendant Welch knowingly provided substantial assistance to Oak by failing to devise and maintain appropriate internal accounting controls, at the division level, sufficient to provide reasonable assurances that the Company's transactions were recorded as necessary to permit preparation of financial statements in conformity with GAAP for the quarters ended December 31, 1995, March 31, 1996, June 30, 1996 and September 30, 1996.

66. Defendant Horne knowingly provided substantial assistance to Oak by failing to devise and maintain appropriate internal controls, at the division level, sufficient to provide reasonable assurances that the Company's transactions were recorded as necessary to permit preparation of financial statements in conformity with GAAP for the quarters ended December 31, 1995 and March 31, 1996.

67. By reason of the foregoing, Defendants Welch and Horne aided and abetted Oak's violations of Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)] and, therefore are liable pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)].

PRAYER FOR RELIEF

WHEREFORE, Plaintiff Commission respectfully requests that this Court issue a Final Judgment:

I.

Permanently enjoining Defendants Welch and Horne from violating, directly or indirectly:

- 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] thereunder; and
- b. Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1];

II.

Permanently enjoining Defendant Welch from violating, directly or indirectly, Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)];

III.

Permanently enjoining Defendants Welch and Horne from violating, directly or indirectly:

- a. Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 13a-1, 13a-13 and 12b-20 [17 C.F.R. §§ 240.13a-1, 13a-13 and 12b-20] thereunder;
- b. Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)];
- c. Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)];

IV.

Requiring Defendants Welch and Horne disgorge their bonuses, in the amounts of \$15,000 and \$55,000, respectively, plus prejudgment interest thereon;

V.

Requiring Defendants Welch and Horne to pay civil money penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)] in an amount to be determined by the Court; and

VI.

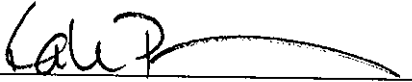
Ordering such other and further relief as this case may require and the Court deems appropriate.

Respectfully submitted,

JUAN MARCEL MARCELINO
District Administrator

Dated: September 26, 2000

By:


Kate Poverman
Assistant District Administrator
Ill. Bar #6194023

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JS 44
(Rev. 3/99)

Cat 3

CIVIL COVER SHEET

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The JS-44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON THE REVERSE OF THE FORM.)

I. (a) PLAINTIFFS

SECURITIES AND EXCHANGE COMMISSION

(b) COUNTY OF RESIDENCE OF FIRST LISTED PLAINTIFF
(EXCEPT IN U.S. PLAINTIFF CASES)

(c) ATTORNEYS (FIRM NAME, ADDRESS, AND TELEPHONE NUMBER)
Kate Poverman, Esq.
Securities and Exchange Commission
73 Tremont Street, 6th Floor
Boston, MA 02108-3912 (617) 424-5929

DEFENDANTS

**MATTHEW R. WELCH and
JAMES C. HORNE** JUDGE
GERALDINE SOAT BROWN MAGISTRATE JUDGE

COUNTY OF RESIDENCE OF FIRST LISTED DEFENDANT DePage
(IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

ATTORNEYS, (IF KNOWN)
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JUDGE RONALD GUZMAN

II. BASIS OF JURISDICTION

(PLACE AN "X" IN ONE BOX ONLY)

- 1 U.S. Government Plaintiff
- 2 U.S. Government Defendant
- 3 Federal Question (U.S. Government Not a Party)
- 4 Diversity (Indicate Citizenship of Parties in Item III)

III. CITIZENSHIP OF PRINCIPAL PARTIES

(For Diversity Cases Only)

(PLACE AN "X" IN ONE BOX FOR PLAINTIFF AND ONE BOX FOR DEFENDANT)

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|---|----------------------------|----------------------------|---|----------------------------|----------------------------|
| | PTF | DEF | | PTF | DEF |
| Citizen of This State | <input type="checkbox"/> 1 | <input type="checkbox"/> 1 | Incorporated or Principal Place of Business in This State | <input type="checkbox"/> 4 | <input type="checkbox"/> 4 |
| Citizen of Another State | <input type="checkbox"/> 2 | <input type="checkbox"/> 2 | Incorporated and Principal Place of Business in Another State | <input type="checkbox"/> 5 | <input type="checkbox"/> 5 |
| Citizen or Subject of a Foreign Country | <input type="checkbox"/> 3 | <input type="checkbox"/> 3 | Foreign Nation | <input type="checkbox"/> 6 | <input type="checkbox"/> 6 |

IV. NATURE OF SUIT

(PLACE AN "X" IN ONE BOX ONLY)

CONTRACT	TORTS		FORFEITURE/PENALTY	BANKRUPTCY	OTHER STATUTES
<input type="checkbox"/> 110 Insurance <input type="checkbox"/> 120 Marine <input type="checkbox"/> 130 Miller Act <input type="checkbox"/> 140 Negotiable Instrument <input type="checkbox"/> 150 Recovery of Overpayment & Enforcement of Judgment <input type="checkbox"/> 151 Medicare Act <input type="checkbox"/> 152 Recovery of Defaulted Student Loans (Excl. Veterans) <input type="checkbox"/> 153 Recovery of Overpayment of Veteran's Benefits <input type="checkbox"/> 160 Stockholders' Suits <input type="checkbox"/> 190 Other Contract <input type="checkbox"/> 195 Contract Product Liability	PERSONAL INJURY <input type="checkbox"/> 310 Airplane <input type="checkbox"/> 315 Airplane Product Liability <input type="checkbox"/> 320 Assault, Libel & Slander <input type="checkbox"/> 330 Federal Employers' Liability <input type="checkbox"/> 340 Marine <input type="checkbox"/> 345 Marine Product Liability <input type="checkbox"/> 350 Motor Vehicle <input type="checkbox"/> 355 Motor Vehicle Product Liability <input type="checkbox"/> 360 Other Personal Injury	PERSONAL INJURY <input type="checkbox"/> 362 Personal Injury — Med. Malpractice <input type="checkbox"/> 365 Personal Injury — Product Liability <input type="checkbox"/> 368 Asbestos Personal Injury Product Liability PERSONAL PROPERTY <input type="checkbox"/> 370 Other Fraud <input type="checkbox"/> 371 Truth in Lending <input type="checkbox"/> 380 Other Personal Property Damage <input type="checkbox"/> 385 Property Damage Product Liability	<input type="checkbox"/> 610 Agriculture <input type="checkbox"/> 620 Other Food & Drug <input type="checkbox"/> 625 Drug Related Seizure of Property 21 USC 861 <input type="checkbox"/> 630 Liquor Laws <input type="checkbox"/> 640 R.R. & Truck <input type="checkbox"/> 650 Airline Regs. <input type="checkbox"/> 660 Occupational Safety/Health <input type="checkbox"/> 690 Other	<input type="checkbox"/> 422 Appeal 28 USC 158 <input type="checkbox"/> 423 Withdrawal 28 USC 157 PROPERTY RIGHTS <input type="checkbox"/> 820 Copyrights <input type="checkbox"/> 830 Patent <input type="checkbox"/> 840 Trademark	<input type="checkbox"/> 400 State Reapportionment <input type="checkbox"/> 410 Antitrust <input type="checkbox"/> 430 Banks and Banking <input type="checkbox"/> 450 Commerce/ICC Rates/etc. <input type="checkbox"/> 460 Deportation <input type="checkbox"/> 470 Racketeer Influenced and Corrupt Organizations <input type="checkbox"/> 810 Selective Service <input checked="" type="checkbox"/> 850 Securities/Commodities/Exchange <input type="checkbox"/> 875 Customer Challenge 12 USC 3410 <input type="checkbox"/> 891 Agricultural Acts <input type="checkbox"/> 892 Economic Stabilization Act <input type="checkbox"/> 893 Environmental Matters <input type="checkbox"/> 894 Energy Allocation Act <input type="checkbox"/> 895 Freedom of Information Act <input type="checkbox"/> 900 Appeal of Fee Determination Under Equal Access to Justice <input type="checkbox"/> 950 Constitutionality of State Statutes <input type="checkbox"/> 890 Other Statutory Actions
REAL PROPERTY <input type="checkbox"/> 210 Land Condemnation <input type="checkbox"/> 220 Foreclosure <input type="checkbox"/> 230 Rent Lease & Ejectment <input type="checkbox"/> 240 Torts to Land <input type="checkbox"/> 245 Tort Product Liability <input type="checkbox"/> 290 All Other Real Property	CIVIL RIGHTS <input type="checkbox"/> 441 Voting <input type="checkbox"/> 442 Employment <input type="checkbox"/> 443 Housing/Accommodations <input type="checkbox"/> 444 Welfare <input type="checkbox"/> 440 Other Civil Rights	PRISONER PETITIONS <input type="checkbox"/> 510 Motions to Vacate Sentence HABES CORPUS: <input type="checkbox"/> 530 General <input type="checkbox"/> 535 Death Penalty <input type="checkbox"/> 540 Mandamus & Other <input type="checkbox"/> 550 Civil Rights <input type="checkbox"/> 555 Prison Condition	LABOR <input type="checkbox"/> 710 Fair Labor Standards Act <input type="checkbox"/> 720 Labor/Mgmt. Relations <input type="checkbox"/> 730 Labor/Mgmt. Reporting & Disclosure Act <input type="checkbox"/> 740 Railway Labor Act <input type="checkbox"/> 790 Other Labor Litigation <input type="checkbox"/> 791 Empl. Ret. Inc. Security Act	SOCIAL SECURITY <input type="checkbox"/> 861 HIA (1395ff) <input type="checkbox"/> 862 Black Lung (923) <input type="checkbox"/> 863 DIWC/DIWW (405(g)) <input type="checkbox"/> 864 SSID Title XVI <input type="checkbox"/> 865 RSI (405(g)) FEDERAL TAX SUITS <input type="checkbox"/> 870 Taxes (U.S. Plaintiff or Defendant) <input type="checkbox"/> 871 IRS — Third Party 26 USC 7609	

V. ORIGIN

(PLACE AN "X" IN ONE BOX ONLY)

- 1 Original Proceeding
- 2 Removed from State Court
- 3 Remanded from Appellate Court
- 4 Reinstated or Reopened
- 5 Transferred from another district (specify)
- 6 Multidistrict Litigation
- 7 Appeal to District Judge from Magistrate Judgment

VI. CAUSE OF ACTION

(CITE THE U.S. CIVIL STATUTE UNDER WHICH YOU ARE FILING AND WRITE BRIEF STATEMENT OF CAUSE. DO NOT CITE JURISDICTIONAL STATUTES UNLESS DIVERSITY.)

Violations of 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 Exchange Act Rules 10b-5 and 13b2-1 [17 C.F.R. §§ 240.10b-5 and 240.13b2-1]. Violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B)] and Exchange Act Rules 12b-20, 13a-1, and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13].

VII. REQUESTED IN COMPLAINT:

CHECK IF THIS IS A CLASS ACTION UNDER F.R.C.P. 23

DEMAND \$

CHECK YES only if demanded in complaint:

JURY DEMAND: YES NO

VIII. RELATED CASE(S) IF ANY

JUDGE

SIGNATURE OF ATTORNEY OF RECORD

DATE
9/26/00

Care P

DOCKET NUMBER

SEP 28 2000

OR OFFICE USE ONLY

RECEIPT # _____ AMOUNT _____ APPLYING IFP _____ JUDGE _____ MAG. JUDGE _____

1-2

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS**

In the Matter of

Securities and Exchange Commission v. Matthew R. Welch and James C. Horne

00C 5935

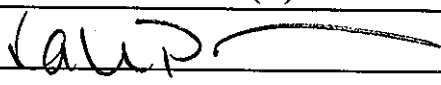
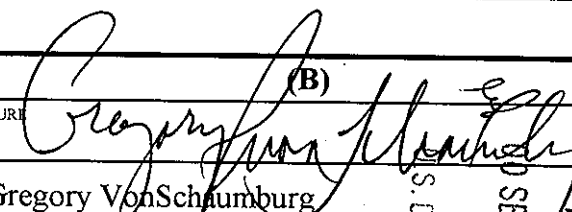
Case Number:

JUDGE RONALD GUZMAN

APPEARANCES ARE HEREBY FILED BY THE UNDERSIGNED AS ATTORNEY(S) FOR:

**MAGISTRATE JUDGE
GERALDINE SOAT BROWN**

**DOCKETED
SEP 28 2000**

(A)		(B)	
SIGNATURE 		SIGNATURE 	
NAME Kate Poverman		NAME Gregory VonSchaumburg	
FIRM Securities and Exchange Commission		FIRM Securities and Exchange Commission	
STREET ADDRESS 73 Tremont Street		STREET ADDRESS Citicorp. Center 500 West Madison Street	
CITY/STATE/ZIP Boston, Massachusetts 02108		CITY/STATE/ZIP Chicago, Illinois 60661-2911	
TELEPHONE NUMBER (617) 424-5900	FAX NUMBER (617) 424-5940	TELEPHONE NUMBER (312) 353-7651	FAX NUMBER (312) 353-7398
E-MAIL ADDRESS PovermanK@SEC.GOV		E-MAIL ADDRESS VonSchaumburgG@SEC.GOV	
IDENTIFICATION NUMBER (SEE ITEM 4 ON REVERSE) Ill. Bar 6194023		IDENTIFICATION NUMBER (SEE ITEM 4 ON REVERSE)	
MEMBER OF TRIAL BAR? YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>		MEMBER OF TRIAL BAR? YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
TRIAL ATTORNEY? YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>		TRIAL ATTORNEY? YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>	
		DESIGNATED AS LOCAL COUNSEL? YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	
(C)		(D)	
SIGNATURE		SIGNATURE	
NAME		NAME	
FIRM		FIRM	
STREET ADDRESS		STREET ADDRESS	
CITY/STATE/ZIP		CITY/STATE/ZIP	
TELEPHONE NUMBER	FAX NUMBER	TELEPHONE NUMBER	FAX NUMBER
E-MAIL ADDRESS		E-MAIL ADDRESS	
IDENTIFICATION NUMBER (SEE ITEM 4 ON REVERSE)		IDENTIFICATION NUMBER (SEE ITEM 4 ON REVERSE)	
MEMBER OF TRIAL BAR? YES <input type="checkbox"/> NO <input type="checkbox"/>		MEMBER OF TRIAL BAR? YES <input type="checkbox"/> NO <input type="checkbox"/>	
TRIAL ATTORNEY? YES <input type="checkbox"/> NO <input type="checkbox"/>		TRIAL ATTORNEY? YES <input type="checkbox"/> NO <input type="checkbox"/>	

**FILED
SEP 27 11:00 AM '00
U.S. DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS**

Handwritten mark