

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

SECURITIES AND EXCHANGE COMMISSION	:	
450 Fifth Street, N.W.	:	
Washington, D.C. 20549-0708,	:	
	:	
Plaintiff,	:	
	:	
v.	:	
	:	Civil Action No. _____
LEONARD T. SHEEHAN,	:	
	:	
Defendant.	:	
	:	

COMPLAINT

Plaintiff Securities and Exchange Commission (“Commission”) alleges:

SUMMARY

1. Between November 2000 and February 2001, defendant Leonard Sheehan (“Sheehan”) placed numerous limit orders that affected the National Best Bid and Offer (“NBBO”) for certain thinly traded securities. Sheehan’s conduct, known in the industry as “spoofing,” was intended to allow him to obtain otherwise unobtainable execution prices for orders on the other side of the market. In so doing, Sheehan violated the antifraud provisions of the federal securities laws.

JURISDICTION

2. This Court has jurisdiction pursuant to Section 22 of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. § 77v(a)] and Sections 21 and 27 of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u and 78aa].

THE DEFENDANT

3. Defendant Leonard Sheehan, age 31, is a self-employed investor living in Lawrence, Massachusetts.

FACTS

The Limit Order Display Rule

4. The Limit Order Display Rule, Rule 11Ac1-4 under the Exchange Act (“Display Rule”), requires a Nasdaq market maker, subject to certain specified exceptions, to display in the market maker’s public quote a customer limit order that (i) is priced better than the market maker’s quote or (ii) represents more than a *de minimis* increase to the size of the market maker’s quote, if the market maker’s quote is at the NBBO at the time the customer’s limit order is received.

5. The Display Rule provides greater transparency by allowing the market to see improving customer limit orders, and consequently, enhances liquidity and execution opportunities for customer orders.

Defendant’s Conduct

6. Between approximately November 2000 and February 2001, Sheehan placed at least twenty-five (25) buy and sell limit orders to artificially affect the NBBO of several Nasdaq Small Cap securities. Sheehan affected the NBBO for these securities by first placing an order with an electronic communications network (“ECN”). This order became the new best bid or offer. Within seconds, Sheehan placed one or more larger orders through a different brokerage account on the opposite side of the market. These orders were filled by brokers who guaranteed execution of the security at the new NBBO up to a maximum number of shares, regardless of the size of the NBBO quote.

7. After causing the bid or offer quote to move and obtaining an execution, Sheehan would cancel, or attempt to cancel, his initial market moving order. In this manner, Sheehan altered the public quote to obtain better execution prices for his trades. During the relevant time period, Sheehan obtained approximately forty-three (43) advantaged executions and cancelled seventeen (17) of his twenty-five (25) market moving orders, improving his aggregate purchase price by approximately \$10,625.

8. Sheehan repeatedly engaged in a pattern of conduct that affected the NBBO and permitted the execution of orders at prices that would not otherwise have been available in the market. Sheehan's actions interfered with the free forces of supply and demand and undermined the integrity of the NBBO.

CLAIM

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

9. Plaintiff realleges and incorporates by reference paragraphs 1 through 8 above.

10. By reason of the foregoing, Sheehan violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)] and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)], and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

PRAYER FOR RELIEF

11. The Commission respectfully requests that this Court (i) enter a Final Judgment against Sheehan ordering him to pay a civil penalty pursuant to Section 20(d) of the Securities Act and Section 21(d)(3) of the Exchange Act, and (ii) grant such other relief as this Court deems just and proper.

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Dated: