

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

LARRY F. SMATH, GREGORY R. SALVAGE,
JOSEPH T. FALCONE, PETER L. COHEN,
SETH J. GLASER, and FRANK J. ZANGARA,

Defendants.

CV 99

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PLATT, J.

CV ()

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BOUMA
Boyle

COMPLAINT

U.S. District Court
Eastern District of New York

1999 JAN 27 A 10:03
JP 21-99

Plaintiff Securities and Exchange Commission (the "Commission") for its Complaint against defendants Larry F. Smath ("Smath"), Gregory R. Salvage ("Salvage"), Joseph T. Falcone ("Falcone"), Peter L. Cohen ("Cohen"), Seth J. Glaser ("Glaser"), and Frank J. Zangara ("Zangara") (collectively, "Defendants"), alleges as follows:

INTRODUCTION

1. From June 1995 to January 1996, Defendants Smath, Salvage, Falcone, Cohen, Glaser and Zangara engaged in a scheme to trade securities while in possession of material nonpublic information, to wit, the future contents of the Inside Wall Street column (the "IWS column") in Business Week magazine. At the time, Defendants Smath, Falcone, Cohen, Glaser and Zangara were stockbrokers employed at three registered broker-dealers and Salvage was

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employed by Hudson News Company ("Hudson News"), a large wholesale and retail distributor of newspapers and magazines, including Business Week.

2. Beginning in June of 1995, Smath arranged to have at least eighteen copies of the IWS column faxed to him before the column was made public. The faxes came from Salvage, a night foreman at Hudson News' distribution facility in New Jersey, and another Hudson News employee. Between June 1995 and January 1996, Smath paid Salvage to have copies of the IWS column faxed to Smath before Business Week was released to the public on Thursday afternoons, generally at 5:15 p.m. Eastern time. Smath paid Salvage approximately \$200 per fax for most of the faxes. Those faxes violated Hudson News' policies prohibiting employee misappropriation of magazines.

3. While in possession of misappropriated advance copies of the IWS column, Smath traded at least thirty-four different securities in brokerage accounts in his name and/or the names of his relatives, before Business Week was released to the public. In all, Smath and his family members made profits of approximately \$94,000 from those purchases and, in addition, Smath earned brokerage commissions for executing certain of those trades.

4. On a number of occasions, Cohen, Glaser, Falcone and Zangara paid Smath in cash for communicating the contents of IWS columns to them before the columns were made public. Cohen, Glaser, Falcone and Zangara purchased securities in their own accounts and collectively made profits of approximately \$6,800 from illegal securities trades. Cohen and Glaser also tipped the material nonpublic information to one of their customers, who made approximately \$78,000 from illegal trades. In addition, while in possession of the material, nonpublic information they obtained from Smath, Cohen, Glaser, Falcone and Zangara recommended

securities mentioned in the IWS columns to other customers, without telling the customers the true basis for their recommendations, and earned brokerage commissions for executing customer orders resulting from the recommendations. The defendants and their family members and customers purchased a total of approximately \$8 million of securities mentioned in the IWS columns.

5. Defendants have engaged and may continue to engage in acts, practices and courses of business that constitute violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. §78j(b), and Rule 10b-5 thereunder, 17 C.F.R. §240.10b-5.

6. Unless Defendants are permanently restrained and enjoined, they will continue to engage in the acts, practices, and courses of business described below, and in similar acts, practices, and courses of business.

JURISDICTION AND VENUE

7. This Court has jurisdiction over this action, and venue is proper, pursuant to Sections 21(d), 21(e), 21A(a), and 27 of the Exchange Act, 15 U.S.C. §§ 78u(d), 78u(e), 78u-1a, 78aa.

8. The Commission brings this action pursuant to the authority conferred upon it by Section 21(d) of the Exchange Act, 15 U.S.C. §78u(d), for permanent injunctive relief against Defendants; for disgorgement from them of the profits from their fraudulent conduct, including the profits from their trading and the trading of their tippees, plus prejudgment

interest thereon; for civil penalties against Defendants under the Insider Trading and Securities Fraud Enforcement Act of 1988, Section 21A(a) of the Exchange Act, 15 U.S.C. § 78u-1(a), and for such other and further relief as the Court may deem appropriate.

9. Defendants, directly and indirectly, singly and in concert, made use of the means or instruments of interstate commerce, or of the mails, in connection with the transactions, acts, practices and courses of business alleged herein.

10. Many of the acts, practices and courses of business alleged herein took place in the Eastern District of New York, including, but not limited to, the purchase of securities while in possession of material, nonpublic information and the communication of that information to others by telephone. All Defendants also reside in the Eastern District of New York.

DEFENDANTS

11. Smath, age 42, resides in Levittown, New York. Smath was employed as a registered representative at Renaissance Financial Securities Corp. ("Renaissance"), a broker-dealer that was registered with the Commission, from June 1993 to May 1997. Smath is not currently employed in the securities industry.

12. Salvage, age 43, resides in Levittown, New York. He currently is and at all relevant times was a foreman and employee of Hudson News.

13. Falcone, age 39, resides in Old Bethpage, New York. From April 1995 to August 1996, Falcone was employed as a registered representative at Prudential Securities, Inc. ("Prudential"), a registered broker-dealer in Melville, New York. Falcone is currently employed

as a registered representative at Times Securities Services, Inc., also a registered broker-dealer, in Melville, New York.

14. Cohen, age 33, resides in Plainview, New York. From March 1995 to April 1996, Cohen was employed as a registered representative at Renaissance in Mineola, New York. Cohen is currently employed as a registered representative at J.B. Sutton Group, LLC, a registered broker-dealer, in Great Neck, New York.

15. Glaser, age 29, resides in Levittown, New York. From March 1995 to May 1996, Glaser was employed at Renaissance in Mineola, New York, where he worked together with Cohen. Glaser is currently employed at Fleet Enterprises, Inc., a registered broker-dealer, in Jersey City, New Jersey. Glaser, Cohen and Smath were colleagues at Renaissance.

16. Zangara, age 36, resides in Hicksville, New York. He is and at all relevant times was a registered representative and sales manager at Tasin & Company, Inc. ("Tasin"), a registered broker-dealer, in Hauppauge, New York. Zangara and Smath were formerly colleagues at another registered broker-dealer.

OTHER ENTITIES AND PERSONS

17. Renaissance is a former broker-dealer that was registered with the Commission until June 13, 1998. The firm's principal officers were located in Mineola, New York.

18. The McGraw-Hill Companies, Inc. ("McGraw-Hill") is a New York corporation that, among other things, publishes the magazine Business Week.

19. Hudson News is a large wholesale distributor and retailer of magazines and other periodicals, including Business Week. Hudson News' executive offices and wholesale distribution facility for the New York region are located in North Bergen, New Jersey.

20. Wayne Saker ("Saker"), a resident of Massachusetts, was a customer of Cohen and Glaser at Renaissance. Saker controlled a significant number of brokerage accounts, in his name and in the names of family members, as well as the brokerage account of Adam Spanging Corp., a textile manufacturer in Massachusetts. Those brokerage accounts were located at Renaissance and a number of other registered broker-dealers.

FACTUAL ALLEGATIONS

Business Week's IWS Column

21. Business Week is a weekly magazine published by McGraw-Hill covering current events in business and finance. During 1995 and early 1996, at the time of the transactions and events alleged below, Business Week had a weekly circulation of approximately 900,000 paid subscribers in the United States and a weekly readership in the United States of over 5 million people.

22. Each issue of Business Week includes the IWS column, which is prepared by Business Week employees and is not syndicated. Each IWS column provides information about publicly held companies. The column usually focuses on three companies each week, and generally reports positive news (*e.g.*, prospective mergers, restructurings or soaring earnings)

about each company. On occasion, the IWS column reports negative news about a publicly held company.

23. The information contained in the IWS column, together with Business Week's weekly circulation, has a material impact on the price of the securities of companies mentioned in the IWS column ("IWS Securities"). Specifically, securities of companies that are favorably mentioned in the IWS column generally rise in price immediately after the IWS column becomes public. As a result, a person who learns before Business Week becomes public that a company will be discussed favorably in the IWS column can profit by purchasing IWS Securities based on that nonpublic information.

The Preparation and Delivery of the IWS Column

24. Because information in Business Week can affect stock prices, McGraw-Hill has established written policies and procedures to keep the contents of future Business Week magazines confidential. For example, McGraw-Hill maintained strict controls over access, printing and release of the magazine before its official release to the public. Those controls were in effect at the time of the transactions and events alleged herein.

25. During the period June 1, 1995 to January 31, 1996, the contents of each Business Week magazine, including the IWS column, were confidential and not available to the public until after its official release. Business Week was officially released to the public at 5:15 p.m. Eastern time on Thursday, eleven days before the cover date of the magazine.

26. During the period June 1, 1995 to January 31, 1996, Business Week was prepared and distributed on a regular, weekly schedule. Gene Marcial, who wrote the IWS

column, generally completed it on Tuesday of each week. Each Wednesday, Business Week was electronically transmitted to various printing plants around the country. Each Thursday, printed copies of Business Week were distributed to wholesale distributors.

27. McGraw-Hill instructed its wholesale distributors to deliver copies of Business Week so that the magazine could be purchased at some newsstands on Friday mornings.

28. In 1994 and 1995, McGraw-Hill had written notices sent to all wholesale distributors of Business Week stating that the contents of Business Week must be kept confidential until Business Week becomes public.

29. Throughout the period June 1, 1995 to January 31, 1996, Hudson News had written policies prohibiting employees involved in the wholesale distribution of periodicals from misappropriating magazines that had been received from publishers but had not yet been distributed to retail newsstands. Hudson News informed its employees, including Salvage, of those policies.

**Smath Traded While In Possession of Material
Nonpublic Information and Tipped Other Members of the Ring**

30. In early 1995, Salvage was a night foreman at Hudson News' distribution facility in New Jersey. Salvage lived near Smath in Levittown, New York. Salvage and Smath became acquaintances and Salvage opened a brokerage account at Renaissance, where Smath was Salvage's registered representative.

31. Smath convinced Salvage to arrange for another Hudson News employee to fax Smath copies of the IWS column at Renaissance on Thursday afternoons, before Business Week was released to the public at 5:15 p.m. Eastern time.

32. Copies of nonpublic IWS columns were faxed from Hudson News to Renaissance on at least eighteen Thursday afternoons between June 1, 1995 and January 31, 1996. Each fax arrived at Renaissance between 12:15 p.m. and 3:30 p.m.

33. Smath paid Salvage approximately \$200 in cash per fax, for most of the faxes sent to Smath. In comparison, the newsstand price of Business Week at the time was \$2.95.

34. Smath purchased at least thirty-four IWS Securities on Thursday afternoons during the period June 1, 1995 to January 31, 1996, knowing that the issuers of those securities were favorably discussed in nonpublic IWS columns. Smath traded the IWS Securities in brokerage accounts at Renaissance and at another broker-dealer in his name and/or the names of family members. As shown below in Table 1, Smath and his family members collectively made a profit of \$93,503 as a result of those trades. Smath also earned commissions of approximately \$1,495 as a result of those transactions.

TABLE 1
SMATH'S TRADES

SECURITY	DAY	DATE PURCHASED	SHARES	COST	PROFIT OR (LOSS)
ABEX, INC.	THU	15-Jun-95	8000	\$81,285.00	\$3,529.67
ORBITAL SCIENCES CORP.	THU	15-Jun-95	5000	\$90,310.00	\$17,155.00
SECURITY CONNECTICUT CORP.	THU	22-Jun-95	3375	\$82,438.75	\$763.45
THERMOTREX CORP.	THU	22-Jun-95	2300	\$73,560.00	\$9,729.08
LASER FRIENDLY INC.	THU	6-Jul-95	21000	\$109,182.50	\$26,947.50
AZTAR CORP.	THU	6-Jul-95	8000	\$74,255.00	\$492.48
AZTAR CORP. CALL	THU	6-Jul-95	100	\$2,546.48	(\$2,546.48)
CITY NATIONAL CORP.	THU	13-Jul-95	7300	\$89,042.50	\$761.98
RENT WAY INC.	THU	13-Jul-95	4000	\$56,810.00	\$1,655.00
AIRTOUCH COMMUNICATIONS	THU	20-Jul-95	4375	\$132,148.76	\$555.32
THE PEAK TECHNOLOGY GROUP	THU	20-Jul-95	2200	\$64,092.50	(\$1,686.11)
HOST MARRIOTT CORP.	THU	27-Jul-95	18,500	\$206,617.50	\$2,820.48
SALANT CORP.	THU	27-Jul-95	4000	\$17,625.00	\$1,749.34
BURLINGTON COAT FACTORY WAREHOUSE CORP.	THU	3-Aug-95	6900	\$93,908.00	(\$479.14)
SCANDINAVIAN BROADCASTING SYSTEM, S.A.	THU	3-Aug-95	2000	\$54,535.00	\$2,430.00
WARNER LAMBERT COMPANY	THU	3-Aug-95	1000	\$84,075.00	\$1,222.15
STRATASYS INC.	THU	31-Aug-95	4500	\$71,872.50	\$5,592.50
UPJOHN CO.	THU	31-Aug-95	2000	\$85,110.00	\$1,027.12
UPJOHN CO. CALL	THU	31-Aug-95	10	\$3,340.50	\$811.92
OLIN CORP. CALL	THU	14-Sep-95	10	\$2,353.51	(\$268.82)
RESEARCH FRONTIERS, INC.	THU	14-Sep-95	11200	\$172,280.50	(\$12,423.50)
SALTON/MAXIM HOUSEWARES	THU	5-Oct-95	2500	\$6,597.50	\$867.50
KELLSTROM INDUSTRIES WTS.	THU	12-Oct-95	2500	\$3,472.50	\$476.88
KELLSTROM INDUSTRIES INC.	THU	12-Oct-95	2000	\$11,062.50	\$812.50
PIER 1 IMPORTS, INC.	THU	12-Oct-95	5000	\$53,010.00	\$3.22
PIER 1 IMPORTS, INC. - CALL	THU	12-Oct-95	5000	\$52827.80	(\$33.82)
BCE, INC.	THU	19-Oct-95	2500	\$84,172.50	(\$197.81)
I V I PUBLISHING INC.	THU	26-Oct-95	4000	\$38,050.00	\$1,155.00
VTTEL CORP.	THU	16-Nov-95	5000	\$106,310.00	\$4,890.00
C-TEC CORP.	THU	7-Dec-95	5000	\$154,500.00	\$1,700.00
LONE STAR TECHNOLOGY, INC.	THU	7-Dec-95	1000	\$8,425.00	\$775.00
SMITH'S FOOD & DRUG CENTERS	THU	4-Jan-96	5000	\$133,235.00	\$6,025.35
CREATIVE BIOMOLECULES, INC.	THU	18-Jan-96	12000	\$114,650.00	(\$700.00)
ANGEION CORP.	THU	25-Jan-96	10000	\$86,810.00	\$15,540.00
ANGEION CORP. WTS.	THU	25-Jan-96	10000	\$21,300.00	\$2,350.00
		GROSS PROFIT:			\$93,502.76

35. Smath told Cohen, Glaser, Falcone and Zangara that he had arranged to receive nonpublic IWS columns. Smath made arrangements with Cohen and Glaser, Falcone, and Zangara that Cohen and Glaser, Falcone and Zangara would pay Smath in return for access to the nonpublic IWS columns before the columns were made public. Cohen, Glaser, Falcone and Zangara paid Smath cash in exchange for that access.

While In Possession of Material Nonpublic Information, Cohen and Glaser Traded IWS Securities, Tipped One Customer, and Recommended IWS Securities To Other Customers

36. In June 1995, immediately after they learned that Smath had arranged to have nonpublic IWS columns faxed to him, Cohen and Glaser opened a special brokerage account to trade in IWS Securities. In an effort to conceal their trading in IWS securities, the account was opened at a brokerage firm other than Renaissance. Cohen and Glaser also opened this brokerage account not in their own names but in the name "Joel Laurence Consultants, Inc." (the "Joel Laurence account"). Cohen was the President of Joel Laurence Consultants, Inc. and Glaser was its vice president.

37. After they entered into the arrangement with Smath described in paragraph 35 above, Cohen and Glaser received nonpublic IWS columns on at least eighteen Thursday afternoons. Cohen and Glaser paid Smath approximately \$200 in cash, on a number of occasions, for the IWS columns.

38. Cohen and Glaser made at least four purchases of IWS Securities in the Joel Laurence account while in possession of nonpublic IWS columns they received from Smath. At

the time of those purchases, Cohen and Glaser knew or recklessly disregarded that the issuers of those securities were favorably mentioned in nonpublic IWS columns.

39. Cohen and Glaser jointly made a profit of \$2,696 from the purchase and sale of four IWS Securities. The profit made in each IWS Security is shown below in Table 2.

**TABLE 2
COHEN AND GLASER'S TRADES**

SECURITY	DAY	DATE PURCHASED	SHARES	COST	PROFIT OR (LOSS)
LASER FRIENDLY INC.	THU	6-Jul-95	2000	\$10,531.75	\$2,139.00
CITY NATIONAL CORP.	THU	13-Jul-95	1500	\$18,506.75	\$363.36
AIRTOUCH COMMUNICATIONS	THU	20-Jul-95	700	\$20,936.75	\$180.79
HOST MARRIOTT CORP.	THU	27-Jul-95	2000	\$22,406.75	\$13.25
		GROSS PROFIT:			\$2,696.40

40. Glaser also purchased one IWS Security, the common stock of Abex, Inc. ("Abex"), on Thursday, June 15, 1995 in the Renaissance brokerage account of Paul and Naomi Glaser, Glaser's parents. At the time, Glaser knew or recklessly disregarded that Abex would be favorably mentioned in the IWS column the next day. Glaser's parents made a profit of \$53 on the purchase and sale and Glaser earned net commissions of approximately \$65.

41. Cohen and Glaser communicated to one of their customers, Saker, certain nonpublic information about the contents of the IWS columns they received from Smath. Saker purchased thirty-nine IWS Securities while in possession of that nonpublic information. Saker made a total of \$77,963 in profits based on those trades, as shown below in Table 3.

TABLE 3
SAKER'S TRADES

SECURITY	DAY	DATE OF PURCHASE	SHARES	COST	PROFIT OR (LOSS)
SECURITY CONNECTICUT CORP.	THU	22-Jun-95	1000	\$24,814.00	(\$3.83)
AZTAR CORP.	THU	6-Jul-95	2100	\$19,555.00	\$263.33
LASER FRIENDLY INC.	THU	6-Jul-95	3000	\$16,684.50	\$2,256.00
CITY NATIONAL CORP.	THU	13-Jul-95	5000	\$61,353.50	\$3,790.82
AIRTOUCH COMMUNICATIONS' CALL	THU	20-Jul-95	50	\$7,418.66	\$2,447.72
AIRTOUCH COMMUNICATIONS	THU	20-Jul-95	8000	\$239,488.86	\$2,635.90
PEAK TECHNOLOGY GROUP	THU	20-Jul-95	3000	\$84,798.50	\$2,209.50
HOST MARRIOTT CORP.	THU	27-Jul-95	27000	\$309,927.00	(\$812.89)
SCANDINAVIAN BROADCASTING SYSTEM, S.A.	THU	3-Aug-95	3000	\$81,843.50	\$3,439.00
WARNER LAMBERT COMPANY	THU	3-Aug-95	3000	\$252,254.50	\$4,802.42
WARNER LAMBERT CALL	THU	3-Aug-95	50	\$7,422.66	\$2,940.57
MCI COMMUNICATIONS CALL	THU	31-Aug-95	4	\$339.00	\$121.98
MCI COMMUNICATIONS CORP.	THU	31-Aug-95	8000	\$193,428.00	(\$635.50)
STRATASYS INC.	THU	31-Aug-95	9500	\$154,373.50	\$11,473.00
OLIN CORP.	THU	14-Sep-95	7000	\$357,804.50	\$1,379.00
RESEARCH FRONTIERS, INC.	THU	14-Sep-95	12000	\$181,562.50	\$10,550.00
TELECOMMUNICATIONS INC.	THU	14-Sep-95	3000	\$79,593.50	(\$562.00)
IVAX CORP.	THU	21-Sep-95	1000	\$31,457.94	(\$1,327.96)
FORD MOTOR COMPANY CALL	THU	5-Oct-95	50	\$3,916.19	(\$784.25)
PAM TRANSPORTATION	THU	5-Oct-95	4000	\$29,708.00	(\$896.00)
SALOMON INC. CALL	THU	5-Oct-95	50	\$7,108.32	(\$179.89)
SALTON/MAXIM HOUSEWARES	THU	5-Oct-95	4500	\$13,155.50	\$2,406.50
FORD MOTOR COMPANY	THU	5-Oct-95	2000	\$59,813.50	\$370.99
AMERICA ONLINE, INC. PUT	THU	12-Oct-95	20	\$2,297.05	(\$2,297.05)
PIER I IMPORTS, INC.	THU	12-Oct-95	18000	\$189,880.40	\$1,715.68
BCE, INC.	THU	19-Oct-95	8000	\$269,398.00	(\$1,554.96)
CONRAIL INC.	THU	19-Oct-95	2000	\$141,714.88	(\$317.60)
I V I PUBLISHING INC.	THU	26-Oct-95	7000	\$66,867.50	\$620.00
RENTRACK CORP.	THU	26-Oct-95	9000	\$54,957.50	\$2,200.00
VTEL CORP.	THU	16-Nov-95	9000	\$191,536.50	\$9,159.00
C-TEC CORP.	THU	7-Dec-95	6000	\$185,558.00	\$3,830.00
LONE STAR TECHNOLOGY, INC.	THU	7-Dec-95	9000	\$81,305.50	\$3,642.00
MINIMED INC.	THU	7-Dec-95	4000	\$46,163.50	\$4,173.00
CREATIVE BIOMOLECULES, INC.	THU	18-Jan-96	20000	\$197,495.50	(\$4,553.00)
ROBERTS PHARMACEUTICAL	THU	18-Jan-96	15000	\$340,807.50	\$10,985.00
AMERICAN EXPRESS CO.	THU	25-Jan-96	7000	\$290,348.00	\$9,143.32
ANGEION CORP.	THU	25-Jan-96	20000	\$179,870.00	(\$2,277.50)
ANGEION CORP. WTS.	THU	25-Jan-96	10000	\$21,785.25	(\$2,389.25)
		GROSS PROFIT:			\$77,963.05

42. After Cohen and Glaser began communicating nonpublic information about the IWS columns to Saker, Saker transferred to Renaissance, on three occasions, large blocks of stock purchased at other brokerage firms. The transferred securities were sold at Renaissance immediately thereafter, generating over \$3,000 in commissions for Cohen and Glaser.

43. In June and July of 1995, Cohen and Glaser also recommended the purchase of certain IWS Securities to at least three of their customers at Renaissance. Those three customers followed the recommendations of Cohen and Glaser and placed orders for IWS Securities in their brokerage accounts at Renaissance.

44. Each IWS Security recommended to Cohen and Glaser's three customers had been favorably mentioned in the IWS column that had been faxed to Renaissance. Cohen and Glaser effected the purchase of those IWS Securities for their customers before the IWS column had been made available to the general public. When Cohen or Glaser recommended the purchase of the IWS Securities to their customers, Cohen and Glaser knew that those securities were favorably mentioned in an IWS column that had not yet been made public.

45. Three of Cohen and Glaser's customers traded in IWS Securities, as shown below in Tables 4, 5 and 6, respectively. Cohen and Glaser earned net commissions from those trades of approximately \$1,963.

TABLE 4
TRADES OF COHEN/GLASER CUSTOMER NUMBER 1

SECURITY	DAY	DATE PURCHASED	SHARES	COST
SECURITY CONNECTICUT CORP.	THU	22-Jun-95	1000	\$24,350.00
THERMOTREX CORP.	THU	22-Jun-95	1000	\$31,985.00
AZTAR CORP.	THU	6-Jul-95	2000	\$18,610.00
LASER FRIENDLY INC.	THU	6-Jul-95	4000	\$20,910.00

TABLE 5
TRADES OF COHEN/GLASER CUSTOMER NUMBER 2

SECURITY	DAY	DATE OF PURCHASE	SHARES	COST
AZTAR CORP.	THU	6-Jul-95	2000	\$18,650.00
LASER FRIENDLY, INC.	THU	6-Jul-95	4000	\$21,630.00

TABLE 6
TRADES OF COHEN/GLASER CUSTOMER NUMBER 3

SECURITY	DAY	DATE PURCHASED	SHARES	COST
LASER FRIENDLY, INC.	THU	6-Jul-95	2000	\$10,825.00

**Falcone Traded IWS Securities and Recommended IWS Securities
To Customers While In Possession of Material Nonpublic Information**

46. After he entered into the arrangement with Falcone described in paragraph 35 above, Smath contacted Falcone on at least thirteen Thursday afternoons and told Falcone what securities Falcone should buy based on the information in the nonpublic IWS column. Falcone paid Smath approximately \$200 to \$300 in cash for this information on several occasions.

47. Falcone purchased at least fifteen IWS Securities on Thursday afternoons in accounts in his name and/or the names of his family members, knowing or recklessly disregarding that the issuers of those securities were favorably discussed in nonpublic IWS columns. Falcone and his family members made profits of \$3,719 as a result of those trades, as shown in Table 7 below.

**TABLE 7
FALCONE'S TRADES**

SECURITY	DAY	DATE PURCHASED	SHARES	COST	PROFIT OR (LOSS)
ABEX, INC.	THU	15-Jun-95	1500	\$15,502.34	\$545.98
ORBITAL SCIENCES CORP. CALL	THU	15-Jun-95	30	\$2,209.44	\$3,701.97
THERMOTREX CORP.	THU	22-Jun-95	30	\$3,200.68	\$5,916.71
CITY NATIONAL CORP.	THU	13-Jul-95	1000	\$12,756.52	\$723.00
BURLINGTON COAT FACTORY WHAREHOUSE CORP.	THU	3-Aug-95	1000	\$13,893.67	(\$2,268.84)
RESEARCH FRONTIERS, INC.	THU	14-Sep-95	2000	\$32,235.50	\$273.00
SALTON/MAXIM HOUSEWARES	THU	5-Oct-95	6000	\$19,430.07	(\$555.07)
PIER 1 IMPORTS, INC.	THU	12-Oct-95	2000	\$21,404.20	(\$1,245.68)
PIER 1 IMPORTS CALL	THU	12-Oct-95	30	\$1,030.31	(\$1,030.31)
BCE, INC.	THU	19-Oct-95	1000	\$34,060.92	(\$1,494.94)
RENTRAK CORP.	THU	26-Oct-95	1000	\$6,184.52	\$1.46
VTEL CORP.	THU	16-Nov-95	1000	\$22,227.71	(\$1,077.38)
VTEL CORP. CALL	THU	16-Nov-95	10	\$2,311.47	\$1,563.60
LONE STAR TECHNOLOGY, INC.	THU	7-Dec-95	2000	\$18,626.50	(\$564.00)
SMITH'S FOOD & DRUG CALL	THU	4-Jan-96	10	\$804.50	\$140.96
CREATIVE BIOMOLECULES, INC.	THU	18-Jan-96	1000	\$10,189.50	(\$879.00)
ROBERTS PHARMACEUTICAL	THU	18-Jan-96	5	\$1,484.55	(\$32.16)
		GROSS PROFIT:			\$3,719.30

48. In addition, while in possession of material nonpublic information from Smath, Falcone recommended IWS Securities to at least two of his customers. Falcone recommended that these two customers purchase IWS Securities shortly after he had been told by Smath that those securities were favorably mentioned in an IWS column that had not yet been made public.

These two customers followed Falcone's recommendations and placed orders for IWS Securities in their brokerage accounts at Prudential. One customer purchased three IWS Securities on three separate Thursday afternoons, as shown below in Table 8. The second customer purchased two IWS Securities on two Thursday afternoons, as shown below in Table 9. Falcone earned net commissions of \$456 on these two customers' trades.

**TABLE 8
TRADES BY FALCONE CUSTOMER NUMBER 1**

SECURITY	DAY	DATE PURCHASED	SHARES	COST
VTEL CORP	THU	16-Nov-95	500	\$10,775.50
SMITH'S FOOD & DRUG CENTERS	THU	4-Jan-96	1000	\$27,212.35
CREATIVE BIOMOLECULES, INC.	THU	18-Jan-96	2000	\$20,516.50

**TABLE 9
TRADES BY FALCONE CUSTOMER NUMBER 2**

SECURITY	DAY	DATE PURCHASED	SHARES	COST
VTEL CORP	THU	16-Nov-95	300	\$6,845.95
CREATIVE BIOMOLECULES, INC.	THU	18-Jan-96	2000	\$20,516.50

Zangara Traded An IWS Security and Recommended IWS Securities To Customers While In Possession of Material Nonpublic Information

49. After he entered into the arrangement with Zangara described in paragraph 35 above, Smath contacted Zangara on at least six Thursday afternoons and either faxed Zangara a copy of a nonpublic IWS column or told Zangara what securities Zangara should buy based on

the information in the nonpublic IWS column. Zangara paid Smath approximately \$500 in cash in return for the nonpublic information.

50. Zangara purchased one IWS Security in his own account while in possession of nonpublic information about an IWS column that he received from Smath. Specifically, on July 20, 1995, Zangara bought call options of Airtouch Communications, Inc. Zangara knew or recklessly disregarded the fact that Airtouch Communications, Inc. was favorably discussed in a nonpublic IWS column. Zangara made a profit of \$370 as a result of his purchase and sale.

51. Zangara also recommended the purchase of several IWS Securities to at least six of his customers while in possession of material nonpublic information from Smath. These six customers followed Zangara's recommendations and placed orders for IWS Securities at Tasin. Zangara recommended that these customers purchase IWS Securities shortly after he learned that the securities were favorably mentioned in an IWS column that had not yet been made public. Zangara's customers traded in the IWS Securities trades Zangara recommended, as shown in Tables 10-15 below, and Zangara earned net commissions of approximately \$2,263 on those trades.

**TABLE 10
TRADES BY ZANGARA CUSTOMER NUMBER 1**

SECURITY	DAY	DATE OF PURCHASE	AMOUNT	COST
PIER I IMPORTS, INC.	THU	12-Oct-95	1000	\$10,765.00

**TABLE 11
TRADES BY ZANGARA CUSTOMER NUMBER 2**

SECURITY	DAY	DATE OF PURCHASE	AMOUNT	COST
SALANT CORP.	THU	27-Jul-95	1000	\$4,390.00
SALTON/MAXIM HOUSEWARES	THU	5-Oct-95	2000	\$6,603.00

**TABLE 12
TRADES BY ZANGARA CUSTOMER NUMBER 3**

SECURITY	DAY	DATE OF PURCHASE	AMOUNT	COST
CITY NATIONAL CORP.	THU	13-Jul-95	1000	\$12,390.00
HOST MARRIOTT CORP.	THU	27-Jul-95	1000	\$11,625.00
PIER 1 IMPORTS, INC.	THU	12-Oct-95	1000	\$10,765.00

**TABLE 13
TRADES BY ZANGARA CUSTOMER NUMBER 4**

SECURITY	DAY	DATE OF PURCHASE	AMOUNT	COST
CITY NATIONAL CORP	THU	13-Jul-95	2000	\$24,775.00
HOST MARRIOTT CORP.	THU	27-Jul-95	2500	\$29,025.00
STRATYSIS, INC.	THU	31-Aug-95	1000	\$16,235.00
SALTON/MAXIM HOUSEWARES	THU	5-Oct-95	1000	\$3,309.00
PIER 1 IMPORTS, INC.	THU	12-Oct-95	1000	\$10,765.00

**TABLE 14
TRADES BY ZANGARA CUSTOMER NUMBER 5**

SECURITY	DAY	DATE OF PURCHASE	AMOUNT	COST
CITY NATIONAL CORP.	THU	13-Jul-95	500	\$6,225.00
SALANT	THU	27-Jul-95	1000	\$4,515.00
PIER 1 IMPORTS, INC.	THU	12-Oct-95	1500	\$16,137.50

TABLE 15
TRADES BY ZANGARA CUSTOMER NUMBER 6

SECURITY	DAY	DATE OF PURCHASE	AMOUNT	COST
CITY NATIONAL CORP.	THU	13-Jul-95	1000	\$12,390.00
HOST MARRIOTT	THU	27-Jul-95	1000	\$11,680.00
PIER 1 IMPORTS, INC.	THU	12-Oct-95	1000	\$10,765.00

CLAIM FOR RELIEF

**DEFENDANTS SMATH, SALVAGE, FALCONE, COHEN, GLASER,
AND ZANGARA VIOLATED SECTION 10(b) OF THE EXCHANGE ACT
AND RULE 10b-5 THEREUNDER**

52. The Commission realleges and incorporates by reference, each and every allegation contained in paragraphs 1 through 51, above.

53. Defendants, directly or indirectly, singly or in concert, in connection with the purchase or sale of securities by use of the means or instruments of interstate commerce, or of the mails: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices and courses of business that operated as a fraud or deceit upon a person.

54. As part of this illegal conduct, defendant Salvage, who had a relationship of trust and confidence with his employer, Hudson News, knowingly or recklessly misappropriated at least eighteen material, nonpublic IWS columns during the period June 1,

1995 to January 31, 1996 that were the property of McGraw-Hill and that had been entrusted to Hudson News.

55. As part of the illegal conduct, defendant Smath purchased at least thirty-four IWS Securities for himself and his family members while in possession of material, nonpublic IWS columns that he knew or was reckless in not knowing had been misappropriated by Salvage.

56. Smath also communicated certain of the misappropriated nonpublic information to Cohen, Glaser, Falcone, and Zangara. Smath knew or was reckless in not knowing that Cohen, Glaser, Falcone, and Zangara would trade IWS Securities while in possession of the material nonpublic information communicated to them by Smath.

57. Similarly, as part of the illegal conduct, Cohen and Glaser purchased five IWS Securities for themselves or family members. Cohen and Glaser also successfully recommended that three customers purchase four IWS Securities in brokerage accounts at Renaissance. The purchases were made while Cohen and Glaser were in possession of material, nonpublic IWS columns that they knew or were reckless in not knowing had been misappropriated from Hudson News and McGraw-Hill.

58. In addition, Cohen and Glaser communicated certain of the misappropriated information they obtained from Smath to Saker, who then purchased at least thirty-nine IWS Securities while in possession of that information. Cohen and Glaser knew or were reckless in not knowing that Saker would trade IWS Securities while in possession of the misappropriated information communicated to Saker by Cohen and Glaser.

59. Falcone purchased at least fifteen IWS Securities for himself and successfully recommended that two customers purchase at least three IWS Securities in brokerage accounts at Prudential while Falcone was in possession of material, nonpublic information concerning the contents of IWS columns. Falcone knew or was reckless in not knowing the information he obtained from Smath had been misappropriated from Hudson News and McGraw-Hill.

60. Zangara purchased one IWS Security for himself and successfully recommended that six customers purchase six IWS Securities in brokerage accounts at Tasin while Zangara was in possession of material, nonpublic information concerning the contents of IWS columns. Zangara knew or was reckless in not knowing the information he obtained from Smath had been misappropriated from Hudson News and McGraw-Hill.

61. By reason of the foregoing, Defendants violated Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, and unless enjoined and restrained, will continue to violate those provisions by engaging in the same or similar acts, practices, and courses of business.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

A. Enter a final judgment permanently restraining and enjoining the Defendants from violating, directly or indirectly, singly or in concert, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

B. Issue an order directing the Defendants to disgorge an amount equal to the sum of all benefits they obtained as a result of the violations alleged herein and their tippees' illegal trading profits, and to pay prejudgment interest thereon.

C. Issue an order imposing civil monetary penalties on the Defendants pursuant to Section 21A(a) of the Exchange Act.

D. Grant such other and further relief as the Court shall deem just and proper.

Dated: January 26, 1999 ✓

CARMEN J. LAWRENCE
Regional Director

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