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**IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

**SECURITIES AND EXCHANGE  
COMMISSION,**

**Plaintiff,**

**v.**

**JOEL J. EPSTEIN,**

**Defendant.**

C.A. No.

**15**

**0303**

**COMPLAINT**

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

**SUMMARY OF THE ACTION**

1. Defendant Joel J. Epstein (“Epstein”) violated the federal securities laws by trading in the securities of Harleysville Group, Inc. (“Harleysville”) based on material nonpublic information that Epstein misappropriated from his son (“Son”) and by tipping others.

2. On September 29, 2011, Harleysville and Nationwide Mutual Insurance Co. (“Nationwide”) jointly announced that Nationwide would acquire Harleysville for \$60 per share in a cash merger valued at approximately \$760 million. On the day of the announcement, the price of Harleysville stock rose by 87%.

3. Son learned the information concerning the impending transaction between Harleysville and Nationwide from his long-time girlfriend (“Girlfriend”) with whom he lived and with whom he shared a relationship of trust and confidence. Girlfriend was a legal assistant at a law firm (“Law Firm”) advising Harleysville regarding the purchase by Nationwide. Girlfriend obtained the information regarding the transaction in connection with performing her duties for the attorneys working on the transaction.

4. Girlfriend had a history, pattern or practice of sharing confidences with Son and

confided in him that she was working on a transaction in which Harleysville was going to be acquired.

5. On or before September 2, 2011, after learning about the merger negotiations and unbeknownst to Girlfriend, Son told his father, defendant Epstein, about the transaction.

6. Between September 2 and September 28, 2011, in breach of a duty of trust and confidence owed to Son, Epstein misappropriated the information received from Son and purchased, directly or indirectly, 4,000 shares of Harleysville stock. Epstein sold the shares after the public announcement of the acquisition by Nationwide, realizing ill-gotten gains of \$113,503.

7. Epstein also tipped four other people who purchased 1,000 shares each of Harleysville stock. After the public announcement of the acquisition, the four tippees sold their Harleysville stock, realizing combined ill-gotten gains of \$123,511.

8. Epstein knowingly or recklessly engaged in the conduct described in this Complaint, violating Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]. Unless enjoined, he will continue to violate Section 10(b) and Rule 10b-5.

#### **JURISDICTION AND VENUE**

9. The Commission brings this action pursuant to Sections 21(d) and 21A of the Exchange Act [15 U.S.C. §§ 78u(d) and 78u-1] to enjoin such transactions, acts, practices, and courses of business, and to obtain disgorgement, prejudgment interest, civil money penalties, and such other and further relief as the Court may deem just and appropriate.

10. This Court has jurisdiction over this action pursuant to Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa].

11. Venue in this District is proper pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Certain of the transactions, acts, practices, and courses of business constituting the violations alleged herein occurred within the Eastern District of Pennsylvania.

## **THE DEFENDANT**

12. Epstein, age 80, resides in Huntingdon Valley, Pennsylvania. He is the owner of a tire store located in Philadelphia, Pennsylvania (“Epstein’s tire store”).

## **RELEVANT ENTITIES**

13. Harleysville was a publicly-traded provider of insurance to small and midsize businesses and individuals located in Harleysville, Pennsylvania. Prior to the merger, the Company’s stock was traded on the NASDAQ Stock Market under the ticker symbol “HGIC.”

14. Nationwide is a privately held insurance and financial services company headquartered in Columbus, Ohio. Nationwide purchased Harleysville, which is now operated as a wholly owned subsidiary of Nationwide.

## **FACTUAL ALLEGATIONS**

### **A. The Harleysville Merger**

15. In January 2011, Nationwide and Harleysville began discussing the merger. Law Firm began advising Harleysville in connection with the potential transaction in February 2011.

16. On August 9, 2011, Nationwide told Harleysville it wanted to acquire all of the publicly-held shares of Harleysville stock at a price of \$60 per share. Less than a week later, on August 15, Nationwide and Harleysville entered into an exclusivity agreement, and began conducting due diligence in preparation for the merger. Ultimately, Nationwide and Harleysville executed the final merger agreement on September 28, 2011, and announced the deal via a joint press release before the markets opened the next day, September 29, 2011.

17. Girlfriend was the legal administrative assistant to the lead transaction partner at Law Firm advising Harleysville. After Nationwide and Harleysville executed the exclusivity agreement on August 15, the Law Firm personnel working on the deal, including Girlfriend, began working longer hours than usual, including nights and weekends.

18. While working extended hours on the Harleysville/Nationwide merger, Girlfriend relied on her live-in boyfriend, Son, for assistance with childcare for her son. Girlfriend also

missed at least one or more Epstein family gatherings.

19. As of August 2011, Son and Girlfriend had been dating for eight years. They had a history of sharing confidences. Girlfriend told Son that the extra work on the Harleysville merger was causing her additional stress. In connection with these conversations, Girlfriend discussed the Harleysville negotiations and impending merger with Son. Given their history, pattern and practice of sharing confidences, Girlfriend expected Son to keep the information regarding the merger confidential.

20. Son did not purchase any Harleysville stock and did not have a brokerage account at that time.

21. After learning about the impending merger involving Harleysville, Son called his father, defendant Epstein. Son and his father had a close relationship. They both worked at Epstein's tire store. In addition to seeing each other at work, they saw each other approximately once a month at family gatherings, and often spoke by phone.

22. Son told Epstein the information he learned from Girlfriend regarding the impending merger involving Harleysville.

23. An active stock trader, Epstein understood the value of the information Son shared with him. Epstein told Son: "don't ever mention this again" and "we never talked."

**B. Epstein's Illegal Trading**

24. On September 2, 2011, after he received the information from Son, Epstein purchased 1,000 shares of Harleysville stock in his own account at a cost of \$27,811.

25. On September 23, Epstein purchased an additional 400 shares of Harleysville stock in his own account, at a cost of \$12,758.

26. On September 22, 23, and 28, Epstein purchased 1,600 shares of Harleysville stock in Epstein's tire store's 401(k) account, at a total cost of \$47,874.

27. Epstein purchased additional shares through a friend ("Intermediary"). Epstein claimed he was having technical difficulties with his account and asked Intermediary to purchase 1,000 shares on Epstein's behalf. Intermediary fulfilled Epstein's request, purchasing

1,000 shares of Harleysville stock for Epstein on September 28, 2011 at a cost of \$32,068.

28. The day before the public announcement of the merger between Harleysville and Nationwide, September 28, 2011, the price of Harleysville stock closed at \$31.52 per share. The next day, after Nationwide announced it would purchase all the outstanding shares of Harleysville stock at a price of \$60.00 per share, the price of Harleysville stock closed at \$58.96 per share, an increase of 87% in one day.

29. As a result of the increase in the price of Harleysville stock when the merger was announced, Epstein realized ill-gotten gains of \$113,503.

**C. Epstein Tipped Four Individuals Who Also Bought Harleysville Stock**

30. In the weeks after he learned of the impending Harleysville merger, Epstein tipped four individuals who traded (hereinafter "Tippee 1," "Tippee 2," "Tippee 3," and "Tippee 4").

31. Tippee 1 is Epstein's son-in-law. He resides in Blue Bell, Pennsylvania and works in Pennsylvania.

32. Tippee 2 is Epstein's other son-in-law. He resides in Mount Laurel, New Jersey and works in New Jersey.

33. Tippee 3 is a long-time friend of Epstein. He resides in Hollywood, Florida.

34. Tippee 4 is a long-time friend of Epstein. He resides in Blue Bell, Pennsylvania and works in Pennsylvania.

35. Epstein told each tippee material nonpublic information concerning Harleysville and told each tippee to purchase 1,000 shares of Harleysville stock.

36. On September 21, 2011, Tippee 1 purchased 1,000 shares of Harleysville stock at a cost of \$26,270. On that same day, Tippee 2 also purchased 1,000 shares of Harleysville stock at a cost of \$26,232.

37. After the merger was publicly announced, on September 29, Tippee 1 and Tippee 2 both sold all of their Harleysville stock. Tippee 1 realized ill-gotten gains of \$32,158. Tippee 2 realized ill-gotten gains of \$32,169.

38. On September 21, 2011, Tippee 3 purchased 1,000 shares of Harleysville stock for \$26,477. After the merger was publicly announced, on September 29, Tippee 3 sold his Harleysville stock, realizing ill-gotten gains of \$31,875.

39. On September 26, 2011, Tippee 4 purchased 1,000 shares of Harleysville stock for \$31,065. After the merger was publicly announced, on September 29, Tippee 4 sold his Harleysville stock, realizing ill-gotten gains of \$27,309.

40. In total, the four tippees realized ill-gotten gains of \$123,511.

**D. Epstein Violated The Federal Securities Laws**

41. Girlfriend and Son had a history of sharing confidences with one another and trusted that the other would keep those confidences. Given their history, pattern and practice of sharing confidences, Girlfriend expected Son to keep the information regarding the merger confidential. Son did not trade on the material nonpublic information he learned from Girlfriend. However, he repeated that information to his father, defendant Epstein.

42. By virtue of their parent-child relationship, Epstein owed Son a duty of trust and confidence and breached that duty by misappropriating the information about the Harleysville merger to unlawfully enrich himself and others.

43. In violation of the duty owed to Son, Epstein knowingly and/or recklessly traded on the basis of that information and he knowingly and/or recklessly tipped Tippees 1-4, who also traded on that information.

44. An experienced stock trader, Epstein knew that the information he misappropriated from Son was nonpublic and material for trading purposes or acted with reckless disregard of the nature of the information. Moreover, a reasonable investor would have viewed this information as being important to his investment decision and or significantly altering the mix of information available to the public.

45. Epstein tipped material nonpublic information to the four tippees knowing that they would trade, or was recklessly indifferent as to whether they would trade.

**CLAIM FOR RELIEF**

**Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder**

46. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 45, inclusive, as if they were fully set forth herein.

47. By engaging in the conduct described above, Epstein, knowingly or recklessly, in connection with the purchase or sale of securities, directly or indirectly, by the use of means or instrumentalities of interstate commerce, or the mails, or the facilities of a 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; and/or

(c) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon any person in connection with the purchase or sale of any security.

48. By engaging in the foregoing conduct, Epstein violated and, unless enjoined, will continue to violate 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**

WHEREFORE, the Commission respectfully requests that this Court enter a final judgment:

**I.**

Permanently restraining and enjoining Epstein from, directly or indirectly, violating 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];

**II.**

Ordering Epstein to disgorge the unlawful trading profits derived from the activities set forth in this Complaint, together with prejudgment interest;

**III.**

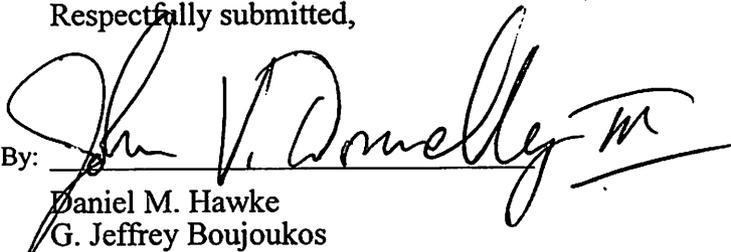
Ordering Epstein to pay civil penalties up to three times the profits made pursuant to Section 21A of the Exchange Act [15 U.S.C. § 78u-1];

**IV.**

Grant such other and further relief as this Court may determine to be just and necessary.

Dated: February 3, 2015

Respectfully submitted,

By: 

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