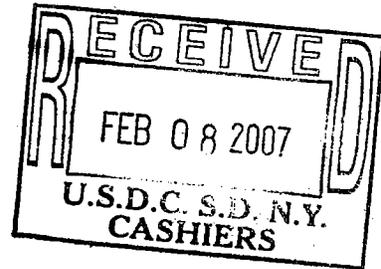


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**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

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:

Date	Announcement	Total Profits/ Losses Avoided
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
	Total Trading Profits and Losses Avoided	\$3,747,247

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:

11/17/2005 Earnings					
Defendant	Trade Date	Buy/Sale	Qty¹	Description	Loss Avoided/Profit
Aragon Partners					
	10/7/2005	S	(50)	Nov 30 Puts	
	10/18/2005	B	50	Nov 30 Puts	
	10/18/2005			Loss avoidance	\$ 43,452.55
	10/7/2005	S	(100)	Nov 25 Puts	
	10/18/2005	B	4	Nov 25 Puts	
	10/18/2005	B	46	Nov 25 Puts	
	10/18/2005	B	36	Nov 25 Puts	
	10/18/2005	B	14	Nov 25 Puts	
	10/18/2005			Loss avoidance	\$ 80,465.20
	10/24/2005	B	100	Nov 20 Puts	
	10/24/2005	B	100	Nov 20 Puts	
	10/24/2005	B	200	Nov 20 Puts	
	10/31/2005	B	100	Nov 20 Puts	
	11/9/2005	S	(100)	Nov 20 Puts	
	11/17/2005	S	(100)	Nov 20 Puts	
	11/17/2005	S	(100)	Nov 20 Puts	
	11/17/2005	S	(100)	Nov 20 Puts	
	11/17/2005	S	(100)	Nov 20 Puts	\$ 115,154.38
	10/24/2005	S	(80)	Nov 20 Calls	
	10/24/2005	S	(200)	Nov 20 Calls	
	10/24/2005	S	(32)	Nov 20 Calls	
	11/18/2005	Expired	312	Nov 20 Calls	\$ 56,333.77
	10/24/2005	S	(15)	Nov 22.5 Calls	
	10/24/2005	S	(200)	Nov 22.5 Calls	
	10/26/2005	S	(200)	Nov 22.5 Calls	
	10/27/2005	S	(200)	Nov 22.5 Calls	
	11/18/2005	Expired	615	Nov 22.5 Calls	\$ 35,397.43
	10/24/2005	S	(60)	Dec 20 Calls	
	10/24/2005	S	(200)	Dec 20 Calls	
	10/24/2005	S	(76)	Dec 20 Calls	
	10/24/2005	S	(64)	Dec 20 Calls	
	12/16/2005	Expired	400	Dec 20 Calls	\$ 84,336.64
	10/26/2005	S	(159)	Jan 22.5 Calls	
	1/20/2006	Expired	159	Jan 22.5 Calls	\$ 21,334.90
	10/26/2005	S	(46)	Jan 25 Calls	
	1/20/2006	Expired	46	Jan 25 Calls	\$ 2,945.42
				Total Profit Aragon:	\$ 439,420.29
Noga (by Amir)					
	10/7/2005	S	(50)	Nov 25 Puts	
	10/18/2005	B	42	Nov 25 Puts	

¹ The quantities in parentheses are sales.

	10/18/2005	B	8	Nov 25 Puts	
	10/18/2005			Loss avoidance	\$ 41,209.51
	10/24/2005	B	100	Nov 20 Puts	
	10/24/2005	B	44	Nov 20 Puts	
	10/24/2005	B	56	Nov 20 Puts	
	11/17/2005	S	(100)	Nov 20 Puts	
	11/17/2005	S	(100)	Nov 20 Puts	\$ 49,362.49
				Total Profit Noga:	\$ 90,572.00
Oren					
	9/19/2005	S	(30)	Jan 22.5 Puts	
	10/21/2005	B	5	Jan 22.5 Puts	
	10/21/2005	B	25	Jan 22.5 Puts	
	10/21/2005			Loss avoidance	\$ 17,716.51
	10/25/2005	S	(3,200)	TARO shares	
	10/25/2005			Loss avoidance	\$ 22,066.16
	10/31/2005	S	(20)	Nov 25 Calls	
	11/18/2005	Expired	20	Nov 25 Calls	\$ 973.96
	11/2/2005	S	(15)	Dec 25 Calls	
	12/16/2005	Expired	15	Dec 25 Calls	\$ 1,327.70
	11/7/2005	B	15	Nov 22.5 Puts	
	11/9/2005	S	(15)	Nov 22.5 Puts	\$ 1,380.40
				Total Profit Oren:	\$ 43,464.73
Ayal					
	10/10/2005	S	(15)	Nov 25 Puts	
	10/20/2005	B	15	Nov 25 Puts	
	10/20/2005			Loss avoidance	\$ 11,602.76
	11/7/2005	B	100	Nov 20 Puts	
	11/11/2005	S	(100)	Nov 20 Puts	\$ 4,827.68
				Total Profit Ayal:	\$ 16,430.44
Heyman					
	5/23/2005	B	600	TARO Stock	
	6/13/2005	S	(20)	Jul 35 Puts	
	6/14/2005	S	(30)	Jul 35 Puts	
	7/13/2005	B	4,200	TARO stock	
	7/18/2005	B	800	TARO stock	
	10/19/2005	S	(5,600)	TARO stock	
	10/19/2005			Loss avoidance	\$ 47,079.67
	10/24/2005	B	66	Nov 20 Puts	
	10/24/2005	B	15	Nov 20 Puts	
	10/24/2005	B	19	Nov 20 Puts	
	10/24/2005	B	50	Nov 20 Puts	

	11/7/2005	B	100	Nov 20 Puts	
	11/17/2005	S	(100)	Nov 20 Puts	\$ 27,826.72
	11/17/2005	S	(150)	Nov 20 Puts	\$ 53,368.46
				Total Profit Heyman:	\$ 128,274.85
Heyman & Son					
	6/14/2005	S	(20)	Jul 35 Puts	
	7/13/2005	B	2,000	TARO stock	
	10/19/2005	S	(2,000)	TARO stock	
	10/19/2005			Loss Avoidance	\$ 16,847.10
	10/24/2005	B	50	Nov 20 Puts	
	11/17/2005	S	(50)	Nov 20 Puts	\$ 11,902.39
				Total Profit Heyman & Son:	\$ 28,749.49
Young Kim					
	11/3/2005	B	10	Nov 20 Puts	
	11/3/2005	B	5	Nov 20 Puts	
	11/17/2005	S	(15)	Nov 20 Puts	\$ 4,010.32
				Total Profit 11/17/2005 earnings:	\$ 750,922.12

33. Trading concerning Taro's November 17, 2005 earnings announcement resulted in more than \$750,000 in total profits and losses avoided.

July 29, 2004 Earnings Announcement

34. On July 29, 2004 at 7:00 a.m., Taro released its second quarter earnings results, reporting that the quarter was the worst quarter, from a sales perspective, that Taro had ever reported. Taro reported a \$17.6 million operating loss, compared with operating profit of \$18 million for the second quarter of 2003. Quarterly sales were \$49.1 million compared with \$74.8 million in the second quarter of 2003 and earnings per share were \$0.08, compared with \$0.97 for the second quarter of 2003. This information was material.

35. On June 28, 2004, Taro's CFO sent a memorandum to all department heads, requesting an immediate review of all projects, a headcount for the balance of 2004, and proposals to reduce costs by 10%. The same day, Zvi sent an email to Taro Israel employees ordering a reduction in manufacturing to avoid a build-up of inventory.

36. On July 6, 2004, Zvi received an email from Taro's Finance Department explaining that Taro had to start making plans to dramatically reduce inventory levels immediately because inventory growth was dramatically affecting Taro's cash flow.

37. By virtue of his position, Zvi had access to material, nonpublic information, including daily Sales Reports, between February and June 2004 that showed the dismal quarter Taro was experiencing. On June 16, 2004, Zvi attended a Sales & Operations meeting to discuss the quarter's actual sales and its negative performance relative to the sales forecast. On June 23, Zvi attended a Sales & Operations meeting where the sales outlook for the quarter was discussed. By June 23, Zvi knew that the quarter's actual sales would not meet the forecast. From June 23 to the end of the quarter on June 30, Zvi was aware that products shipped from the warehouse fell short of projections and the extent of the shortfall of actual sales versus forecasted sales. The sales shortfall caused Taro to alter its production plans to avoid a buildup of inventory and to match production levels to reduced sales forecasts. Taro Canada's Director of Materials Management discussed the sudden sales shortfall and associated production plan changes with Zvi, and as the end of the quarter approached, she, Zvi, and others at Taro made changes to the production plans in response to the falling sales.

38. During the period preceding Taro's July 29, 2004 earnings announcement, Zvi traded on the material, nonpublic information, and communicated the

nonpublic information relating to the sales shortfall directly or indirectly to Amir, who traded on the material, nonpublic information, and tipped Heyman and Bahram with the information, each of whom also traded on the information. Defendants made the following trades surrounding the July 29, 2004 earnings announcement:

7/29/2004 Earnings					
Defendant	Trade Date	BuySale	Qty	Description	Loss Avoided/Profit
Aragon Partners					
	6/25/2004	B	20	Aug 45 Puts	
	6/25/2004	B	20	Aug 40 Puts	
	6/25/2004	B	21	Aug 40 Puts	
	6/28/2004	B	39	Aug 40 Puts	
	7/6/2004	B	50	Oct 40 Puts	
	7/6/2004	B	50	Aug 40 Puts	
	7/29/2004	B	5,000	TARO stock	
	7/29/2004	B	5,000	TARO stock	
	7/29/2004	B	5,000	TARO stock	
	7/29/2004	B	5,000	TARO stock	
	8/2/2004	S	(2,000)	TARO stock	
	8/2/2004	S	(13,000)	TARO stock	
	8/2/2004	S	(5,000)	TARO stock	\$363,113.59
	6/29/2004	S	(100)	Aug 40 Calls	
	6/30/2004	S	(100)	Aug 40 Calls	
	7/1/2004	S	(200)	Aug 40 Calls	
	7/1/2004	S	(23)	Aug 40 Calls	
	7/1/2004	S	(30)	Aug 40 Calls	
	8/20/2004	Expired	453	Aug 40 Calls	\$ 261,934.58
	7/6/2004	S	(10)	Oct 40 Calls	
	7/6/2004	S	(90)	Oct 40 Calls	
	7/7/2004	S	(10)	Oct 40 Calls	
	7/7/2004	S	(40)	Oct 40 Calls	
	7/8/2004	S	(150)	Oct 40 Calls	
	7/8/2004	S	(100)	Oct 40 Calls	
	7/8/2004	S	(50)	Oct 40 Calls	
	10/15/2004	Expired	450	Oct 40 Calls	\$ 216,370.23
	7/6/2004	S		Jan 40 Calls	

			(100)		
	7/7/2004	S	(50)	Jan 40 Calls	
	7/7/2004	S	(50)	Jan 40 Calls	
	11/26/2004	B	200	Jan 40 Calls	\$ 121,487.18
				Total Profit Aragon:	\$ 962,905.58
Noga (by Amir)					
	7/6/2004	B	20	Aug 40 Puts	
	7/6/2004	B	10	Aug 40 Puts	
	7/6/2004	B	20	Aug 40 Puts	
	7/6/2004	B	30	Aug 40 Puts	
	7/6/2004	B	10	Aug 40 Puts	
	7/6/2004	B	30	Aug 40 Puts	
	7/29/2004	S	(20)	Aug 40 Puts	
	7/29/2004	S	(20)	Aug 40 Puts	
	7/29/2004	S	(20)	Aug 40 Puts	
	7/29/2004	S	(60)	Aug 40 Puts	\$ 214,966.34
Zvi Rosenthal					
	7/20/2004	S	(30)	Sep 25 Calls	
	9/17/2004	Expired	30	Sep 25 Calls	\$ 31,143.27
Heyman					
	7/6/2004	S	(100)	TARO stock	
	7/6/2004			Loss avoidance	\$ 1,904.90
	7/6/2004	B	25	Aug 40 Puts	
	7/29/2004	S	(10)	Aug 40 Puts	
	7/29/2004	S	(15)	Aug 40 Puts	\$ 40,065.93
	7/14/2004	B	40	Aug 35 Puts	
	7/29/2004	S	(10)	Aug 35 Puts	
	7/29/2004	S	(30)	Aug 35 Puts	\$ 41,845.83
				Total Profit Heyman:	\$ 83,816.66
Bahram					
	7/12/2004	S	(10)	Aug 35 Calls	
	7/12/2004	S	(270)	Aug 35 Calls	
	7/15/2004	S	(45)	Aug 35 Calls	
	7/23/2004	S	(50)	Aug 35 Calls	
	8/20/2004	Expired	375	Aug 35 Calls	\$ 180,450.26
	7/19/2004	S	(100)	Aug 30 Calls	
	8/20/2004	Expired	100	Aug 30 Calls	\$ 62,837.53
				Total Bahram:	\$ 243,287.79
				Total Profit 7/29/2004 earnings:	\$ 1,536,119.64

39. In appreciation for the Taro tips Amir gave him concerning the July 29, 2004 earnings announcement, Heyman paid for a plasma television that Amir bought on August 29, 2004 for \$6,645.

40. In connection with the July 29, 2004 earnings announcement, Amir received approximately \$66,000 from Bahram as a kickback of approximately 25% of the profits Bahram made on the announcement.

41. Trading concerning the July 29, 2004 earnings release resulted in more than \$1,500,000 in profits and losses avoided.

May 29, 2001 Announcement of FDA Approval of CB Cream

42. On or about May 29, 2001, Taro announced that the FDA had approved its application to distribute a new generic drug, Clotrimazole/Betamethasone Dipropionate Cream USP ("CB Cream"). This information was material.

43. By virtue of his responsibility for coordinating production and shipment of new product and because of his involvement in the PLC meetings, Zvi knew Taro's estimates of when it could expect FDA approval for CB Cream. From September through November 2000, Zvi attended PLC meetings where the group discussed the status of CB Cream production and progress in the FDA approval process. Zvi was in charge of the production plan for CB Cream, and was responsible for ensuring that Taro manufactured and packaged sufficient stocks of CB Cream so that it was ready to ship to distributors and customers immediately upon FDA approval. In March 2001, Zvi participated in PLC meetings and was aware that Taro expected FDA approval of CB Cream some time in April 2001. By May 2, 2001, Zvi was receiving daily reports from

Taro's home offices in Israel concerning CB Cream production in anticipation of an expected approval from the FDA. By May 9, 2001, Taro employees involved in the product launch of CB Cream knew that FDA approval would most likely come by the first week of June 2001. On May 9, 2001, Taro learned in a conference call with the FDA that CB Cream was in "first generic drug review," which usually extends the FDA approval process by three to four weeks. Taro's Chairman and Vice Chairman communicated the FDA's schedule to the PLC. Also on May 9, 2001, Zvi assisted Taro's Director of Regulatory Affairs with preparing a response to FDA requests by translating documents written in Hebrew concerning production of CB Cream.

44. On May 29, 2001, at 2:54 p.m., Taro received a fax from the FDA notifying it of the FDA's approval of CB Cream. Taro issued a press release at 5:26 p.m. the same day, announcing the FDA approval. Taro was the first generic manufacturer to enter the market with the product.

45. Throughout the approval process for CB Cream, Zvi communicated regularly, directly or indirectly, with Amir and Ayal, providing them with the material, nonpublic information he possessed concerning the FDA approval for CB Cream, and both Amir and Ayal traded options in advance of the announcement. The Defendants made the following trades surrounding the May 29, 2001 announcement of FDA

Approval of CB Cream:

5/29/2001	FDA approval for CB Cream				
Defendant	Trade Date	Buy/Sale	Qty	Description	Profit
Amir					
	5/17/2001	B	100	Jun 60 Calls	
	5/17/2001	B	45	Jun 60 Calls	
	5/18/2001	B	55	Jun 60 Calls	
	5/29/2001	B	5	Jun 60 Calls	
	6/1/2001	S	(50)	Jun 60 Calls	
	6/1/2001	S	(30)	Jun 60 Calls	
	6/1/2001	S	(30)	Jun 60 Calls	
	6/1/2001	S	(20)	Jun 60 Calls	
	6/1/2001	S	(20)	Jun 60 Calls	
	6/1/2001	S	(20)	Jun 60 Calls	
	6/1/2001	S	(20)	Jun 60 Calls	
	6/1/2001	S	(15)	Jun 60 Calls	\$ 96,623.96
	5/23/2001	B	30	Jul 65 Calls	
	5/23/2001	B	20	Jul 65 Calls	
	6/1/2001	S	(50)	Jul 65 Calls	\$ 22,173.91
				Total Profit Amir:	\$ 118,797.87
Ayal					
	5/22/2001	B	1	Jun 60 Call	
	5/22/2001	B	2	Jun 60 Calls	
	5/22/2001	B	2	Jun 60 Calls	
	5/22/2001	B	2	Jun 60 Calls	
	5/25/2001	B	1	Jun 60 Call	
	5/30/2001	S	(2)	Jun 60 Calls	
	5/30/2001	S	(3)	Jun 60 Calls	
	5/30/2001	S	(3)	Jun 60 Calls	\$ 2,536.91
				Total Profit 5/29/01 FDA approval of CB Cream:	\$ 121,334.78

46. Trading concerning the May 29, 2001 announcement of FDA approval of CB Cream resulted in more than \$121,000 in profits.

July 19, 2001 Earnings Announcement

47. On July 19, 2001, Taro announced that earnings for the second quarter of 2001 were a record for the company. Taro reported a 49% improvement of sales from the same quarter a year earlier, and net income of \$6.1 million, or \$0.48 per share. This information was material.

48. By virtue of his position at Taro, his participation in Daily Meetings and his access to daily Sales Reports, Zvi knew that Taro's second quarter 2001 earnings would be strong. After the launch of CB Cream on May 29, 2001, Zvi knew that sales were strong at Taro, and on or about May 31, 2001, Zvi received an email from his supervisor stating that Taro expected to ship \$3 million of CB Cream within the first twenty four hours following the product launch. Zvi knew that only one week after its launch, Taro had sold \$40 million worth of CB Cream. On or about July 3, 2001, Zvi received the final sales data for the second quarter, which showed that Taro had \$69.2 million in sales for the quarter, exceeding its quarterly forecast by 185%.

49. During this time, Zvi communicated regularly, directly or indirectly, with Amir and Oren, providing them with the material, nonpublic information he possessed regarding the impending earnings release. Amir and Oren each traded options in their own accounts and/or accounts they had access to or controlled while in possession of material, nonpublic information that Zvi supplied.

50. Amir and Oren made the following profits by trading with material nonpublic information surrounding the July 19, 2001 earnings announcement:

Defendant	Profit
Amir	\$175,811.74
Efrat (by Amir)	\$18,848.26
Oren	\$37,042.27
Total Profit	\$231,702

51. Trading concerning the July 19, 2001 earnings announcement resulted in more than \$231,000 in profits.

October 18, 2001 Earnings Announcement

52. On October 18, 2001 at approximately 7:02 a.m., Taro reported record third quarter earnings for 2001. Taro reported approximately \$41.4 million in sales, an increase of approximately 52% over the same quarter a year earlier, and an increase in net income of approximately 161% to \$7.3 million, or \$0.29 per share. This information was material.

53. By virtue of his position at Taro, prior to its public announcement, Zvi knew that Taro's third quarter earnings in 2001 would be strong. Zvi's participation in Daily Meetings at Taro, and his constant access to daily Sales Reports, gave Zvi material, nonpublic information about Taro's sales and earnings for the record-breaking third quarter of 2001.

54. During the time preceding Taro's third quarter 2001 earnings announcement, Zvi communicated regularly, directly or indirectly, with Amir and Oren, providing them with the material, nonpublic information he possessed about the impending earnings announcement. With the material, nonpublic information, Zvi, Amir, and Oren all traded options in Taro for their own accounts, and/or accounts they

controlled or had access to in advance of Taro's third quarter of 2001 earnings announcement.

55. Zvi, Amir and Oren made the following profits by trading with material nonpublic information surrounding the October 18, 2001 earnings announcement:

Defendant	Profit
Zvi	\$4,280.36
Amir	\$92,489.56
Efrat (by Amir)	\$45,266.87
Oren	\$46,860.90
Total Profit	\$188,897.69

56. Trading concerning the earnings announcement on October 18, 2001 resulted in more than \$188,000 in profits.

**November 26, 2002 Announcement of
FDA Approval of Econazole Nitrate Cream, 1%**

57. On November 26, 2002, Taro announced that the FDA had approved its application for approval of Econazole Nitrate Cream, 1%. This information was material.

58. By virtue of his position at Taro and because of his attendance at PLC meetings, Zvi knew that Taro anticipated that it would be the first manufacturer to market generic Econazole Nitrate Cream, and was frequently updated as to when Taro expected FDA approval. Zvi was involved from October 2001 to April 2002 in preparing validation batches for the FDA, and was responsible for making the necessary production preparations to be able to ship product to fill orders once final FDA approval was received.

59. By early August 2002, Zvi knew that FDA approval and product launch were expected to occur during the fourth quarter 2002. After a meeting in August or September 2002, Taro's Vice Chairman told Taro's staff that the FDA would approve the

application, and that Taro expected approval within the next few months. Zvi knew that the PLC viewed Econazole Nitrate Cream as a profitable product with no generic competition in the market. On November 15, 2002, Zvi attended a PLC meeting where the group discussed the imminent FDA approval for Econazole Nitrate Cream.

60. During this time, Zvi communicated regularly, directly or indirectly, with Amir, Oren, and Ayal, providing them with the material, nonpublic information he possessed regarding the FDA's anticipated approval of Econazole Nitrate Cream. Each of them traded on the information.

61. Amir, Oren and Ayal made the following profits by trading with material nonpublic information surrounding the announcement of FDA approval of Taro's application to distribute Econazole Nitrate Cream:

Defendant	Profit
Amir	\$16,484.70
Oren	\$10,833.06
Ayal	\$5,914.81
Total Profit	\$33,232.57

62. Trading surrounding the November 26, 2002 announcement resulted in more than \$33,000 in profits.

February 20, 2003 Earnings Announcement

63. On February 20, 2003, Taro announced record results for both the fourth quarter of 2002, and for the year ending December 31, 2002. Fourth quarter sales and year-long sales each increased 43%, with annual net income increasing approximately 71% to \$44,500,000, or approximately \$1.52 per share. This information was material.

