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UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

- against -

JURY MATT HANSEN, FERGUS SLOAN,  
NILDA ZIM, ROBERT ROWE, PACIFIC INLAND  
BANK and PACIFIC INLAND BANCORP.,

Defendants,

and

PATRICIA BURKE and CHRISTIE HANSEN,

Relief Defendants.

95 Civ.

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission"),  
for its Complaint against the defendants Jury Matt Hansen, Fergus  
Sloan, Nilda Zim, Robert Rowe (collectively the "Individual  
Defendants"), Pacific Inland Bank ("PIB") and Pacific Inland  
Bancorp. ("PIBancorp"), as defendants, and Patricia Burke and  
Christie Hansen as relief defendants, alleges as follows:

1. The Individual Defendants have engaged and, unless  
enjoined, will continue to engage, directly or indirectly, in  
transactions, acts, practices, or courses of business which

constitute violations of Section 17(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. § 77q(a), 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, and Section 7(f) of the Exchange Act, 15 U.S.C. § 78g(f), and Regulation X, 12 C.F.R. § 224, promulgated by the Board of Governors of the Federal Reserve System ("Federal Reserve Board").

2. PIB has engaged and, unless enjoined, will continue to engage, directly or indirectly, in transactions, acts, practices, or courses of business which constitute violations of Section 7(d) of the Exchange Act, 15 U.S.C. § 78g(d), and Regulation U, 12 C.F.R. § 221, promulgated by the Federal Reserve Board.

3. PIBancorp has engaged and, unless enjoined, will continue to engage, directly or indirectly, in transactions, acts, practices, or courses of business which constitute violations of Sections 13(a) and 13(b) of the Exchange Act, 15 U.S.C. §§ 78m(a), 78m(b), and Rule 13a-13 thereunder, 17 C.F.R. § 240.13a-13, and Rule 12b-20, 17 C.F.R. § 240.12b-20.

4. Burke and Christie Hansen have received monies from the Individual Defendants as a result of the violations alleged in this Complaint.

#### JURISDICTION AND VENUE

5. The Commission brings this action pursuant to authority conferred upon it by Section 20(b) of the Securities Act, 15 U.S.C. § 77t(b), and Sections 21(d) and 21(e) of the Exchange

Act, 15 U.S.C. §§ 78u(d), 78u(e), for (1) permanent injunctive relief against the defendants; (2) an order requiring that the Individual Defendants disgorge their ill-gotten gains, plus pay prejudgment interest; (3) penalties against the Individual Defendants and PIB under the Securities Enforcement Remedies Penny Stock Reform Act of 1990, 15 U.S.C. §§ 78t(d), 78u(d); (4) an order barring Hansen, Sloan and Zim from engaging in any securities transactions in the future; (5) an order requiring that Burke and Christie Hansen disgorge the monies that they received from the Individual Defendants as a result of the violations alleged in this Complaint; and for such other and further relief as the Court may deem appropriate.

6. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), and Sections 21(e) and 27 of the Exchange Act, 15 U.S.C. §§ 78u(e), 78aa.

7. All defendants, directly or indirectly, singly and in concert, have made use of, and are using, the means and instrumentalities of transportation or communication in interstate commerce, or of the mails, or the facilities of a national securities exchange, in connection with the acts, practices and courses of business alleged in this Complaint. Such acts, practices and courses of business include but are not limited to using the telephone to open securities accounts and to order and settle purchases and sales of securities with brokers throughout the United States as well as buying and selling

securities on a national securities exchange. Certain of these acts, practices, and courses of business have occurred in the Southern District of New York, including the opening of securities trading accounts with brokers in the Southern District of New York and the placement of orders for the purchase and sale of securities with those brokers.

#### DEFENDANTS

8. Hansen is approximately 50 years old and resides in Bridgehampton, New York. On November 29, 1989, the United States District Court for the Southern District of New York preliminarily enjoined Hansen from violating the antifraud and credit extension provisions of the federal securities laws. SEC v. Jury Matt Hansen, et al., 89 Civ. 5242 (RO) (S.D.N.Y.). On March 18, 1992, Hansen pled guilty to ten counts of income tax fraud for conduct relating to that alleged in SEC v. Hansen, et al. Hansen was sentenced on March 10, 1994 to one year imprisonment and ordered to pay over one million dollars to the IRS in back taxes, including penalties and interest. United States v. Hansen and Sloan, 91 CR 1325-02 (LDW) (E.D.N.Y.).

9. Sloan is approximately 50 years old and resides in New York City. In 1975, Sloan pled guilty to violating Sections 7 and 10(b) of the Exchange Act and Rule 10b-5 thereunder and conspiracy to violate Regulation T promulgated by the Federal Reserve. United States v. Sloan, 74 Cr. 859 (WLK) (S.D.N.Y.). On November 29, 1989, the United States District Court for the Southern District of New York preliminarily enjoined Sloan from

violating the antifraud and credit extension provisions of the federal securities laws. SEC v. Jury Matt Hansen, et al., 89 Civ. 5242 (RO)(S.D.N.Y.). On March 18, 1992, Sloan pled guilty to four counts of income tax fraud for conduct relating to that alleged in SEC v. Hansen, et al. Sloan was sentenced on March 10, 1994 to one year imprisonment and ordered to pay over one million dollars to the IRS in back taxes, including penalties and interest. U.S. v. Hansen and Sloan, 91 CR 1325-02 (LDW) (E.D.N.Y.).

10. Nilda Zim is approximately 55 years old and resides in Long Island, New York. On July 17, 1990, Zim was permanently barred from associating with any member of the NASD in any capacity and fined by the NASD for churning a customer's account. On or about August 1, 1990, Zim filed for relief under Chapter 7 of the Bankruptcy Code and was discharged on April 4, 1995.

11. Rowe, 48 years old, resides in New York City. Rowe began working in the securities industry in 1967 and was a registered representative at various times with various broker-dealers, where he met Sloan. Rowe worked with Hansen, Sloan and Zim during the relevant period.

12. Christie Hansen is Hansen's wife. She received assets from Hansen that were obtained as the result of Hansen's violations detailed herein.

13. Burke received assets from Sloan that were obtained as the result of Sloan's violations detailed herein.

14. PIB is a commercial bank located in Anaheim, California and chartered under the laws of California. PIB began offering its customers securities clearing services in early 1990. On March 31, 1993, PIB, discontinued its custodial clearing operations. PIB is a subsidiary of PIBancorp.

15. PIBancorp was at all relevant times the public parent holding company of PIB, and its stock was registered with the Commission pursuant to Section 12(g) of the Exchange Act. In PIBancorp's quarterly report for the quarter ended March 31, 1994, PIBancorp reported a consolidated net loss of \$924,000, of which PIB realized an unconsolidated net loss of \$912,000 on total deposits of over \$85 million and equity capital of over \$7.4 million. On August 12, 1994, PIBancorp filed a Form 15 with the Commission to terminate the registration of its stock under Section 12.

#### DEFINITIONS

16. Delivery Versus Payment/Receipt Versus Payment ("DVP/RVP"), in the securities industry, refers to a method of settling transactions between a broker and its customer. In DVP/RVP brokerage accounts, a broker settles trades with its customer by exchanging funds or securities with the customer through an account the customer maintains for that purpose, usually at an agent or broker-dealer ("clearing agent"). To settle a purchase in a DVP/RVP account, the broker delivers the purchased securities to the customer's agent on settlement date and in exchange the customer's agent tenders payment of the

purchase price. To settle a sale in a DVP/RVP account, the customer instructs his agent to deliver securities to the broker and the broker tenders the sale proceeds to the agent in exchange.

17. Free-riding involves purchasing stocks without the intent and ability legitimately to pay for those securities purchases except with the proceeds of the sale of the same stock to cover the purchase price. Free-riding violates various provisions of the federal securities laws as detailed below.

#### BACKGROUND

#### HANSEN AND SLOAN ARE ENJOINED FROM FREE-RIDING AND ELUDE THE ASSET FREEZE

18. On August 2, 1989, the Commission filed a complaint against Hansen and Sloan and their companies, Fermat Associates and Graycliff International, seeking temporary, preliminary and permanent injunctive and other relief for violations of the antifraud and credit extension provisions of the federal securities laws. SEC v. Jury Matt Hansen, et al., 89 Civ. 5242 (RO) (S.D.N.Y).

19. The complaint alleged that, beginning in January 1985 and continuing until 1989, Hansen and Sloan, operating under the name Graycliff, engaged in a fraudulent day-trading scheme whereby they opened numerous DVP/RVP cash accounts and ordered millions of dollars of securities purchases for which they paid with the proceeds from offsetting same-day sales of the same securities. When the market moved against them, and the sale proceeds were insufficient to pay for the securities that they

ordered, Hansen and Sloan "DK'd" and reneged on the trade, leaving their brokers to absorb the loss. As a result of the scheme, Hansen and Sloan made in excess of \$4 million in profits.

20. On August 2, 1989, the Court issued a temporary restraining order and asset freeze ("TRO") against Hansen and Sloan.

21. On November 22, 1989, the Court issued a preliminary injunction against Hansen and Sloan and continued the asset freeze. SEC v. Hansen, Sloan, et al., 726 F. Supp. 74 (S.D.N.Y. 1989).

22. Hansen and Sloan, after being preliminary enjoined from free-riding in August 1989, continued to free ride for the next four years, and were joined by Zim and Rowe.

23. At the heart of their scheme, Hansen, Sloan, Zim and Rowe defrauded brokers when they opened cash accounts and when they ordered trades. When they opened accounts, they misrepresented their identity and net worth to give brokers the false impression that the account holders had substantial assets. During the course of this scheme the Individual Defendants opened over 645 brokerage accounts, at more than 62 brokerage firms using approximately 40 different assumed names. A list of these assumed names is attached as Exhibit A.

24. When the Individual Defendants ordered trades, they knowingly or recklessly misrepresented their intent and ability legitimately to pay for their securities purchases with their own funds. Instead, to settle their transactions, the Individual



Defendants instructed their clearing agents to rely upon the proceeds from offsetting same-day sales of securities to pay for their purchases. By ordering the purchase of securities through one set of brokers and the matching sales through still other brokers, the Individual Defendants were able to conceal from the brokers on both sides that their trades were matched and that they lacked sufficient capital legitimately to pay for their securities purchases absent the proceeds from offsetting sales of the same securities.

25. By trading in this fashion, the Individual Defendants were able to buy more than \$260 million dollars of securities in cash accounts with little or no capital and shift the risk of loss onto their brokers or clearing agents.

26. As a result of the scheme, the Individual Defendants realized over \$2.7 million in ill-gotten gains. Of these profits, Hansen transferred approximately \$359,000 to his wife, Christie Hansen. Sloan transferred approximately \$147,000 of these profits to Burke.

27. PIB facilitated the scheme by unlawfully extending millions of dollars of credit to pay for securities purchases and settling trades that the Individual Defendants could not legitimately finance.

28. PIB's parent company, PIBancorp, falsely represented in its quarterly report filed with the Commission on Form 10-Q for the company's quarter ended March 31, 1992 ("March Form 10-Q") that \$8.57 million in proceeds due to PIB on the settlement of

matched sales ordered by the Individual Defendants was a receivable from the Depository Trust Company.

HANSEN, SLOAN AND ZIM FREE-RIDE AT AMALGAMATED BANK

29. By December 1989, one month after the court entered a preliminary injunction against them, Hansen and Sloan were clearing trades through an account called Albion Associates at Amalgamated Bank.

30. From December 1989 until in or about March 1990, Hansen, Sloan and Zim, operating out of Graycliff's old offices, opened multiple DVP/RVP cash accounts at numerous broker-dealers using a new array of assumed names, including Albion Associates, Inc., Bacardi, IMF, Eurocap, Inc., European Capital Investors, EMDZ Lines and ZEMD Lines. All of these accounts cleared their trades through the Albion account at Amalgamated Bank.

31. Hansen, Sloan and Zim misled their brokers when they ordered trades by knowingly or recklessly misrepresenting their intent and ability legitimately to pay for their securities purchases, and that they owned the securities that they ordered sold. From the time that the Albion account (formerly known as Stanville Associates) was opened in July 1989 with an initial deposit of \$100,000 until the account was closed in March 1990, neither Hansen, Sloan nor Zim deposited any additional funds into the account. During this same period, Hansen, Sloan and Zim proceeded to order the purchase and matching sale of over \$19 million dollars of securities that settled through the Albion clearing account.

32. Hansen, Sloan and Zim relied upon the proceeds of matched same-day sales of the same securities to pay for their purchases, and used the purchased securities to settle their sales.

33. For example, on or about February 6, 1990, Hansen, Sloan and Zim collectively ordered the purchase of 243,500 shares of Occidental Petroleum through DVP/RVP cash accounts at multiple brokers for a total cost of approximately \$6,452,750. These purchase orders were matched with the same-day sale of the same number of shares of Occidental Petroleum through still other brokers. Before the first of these purchases settled, the balance in the Albion account was approximately \$280,000. On settlement day, Amalgamated Bank debited the Albion account in the amount of the purchase price, and extended the necessary funds to pay for the purchases. Upon the subsequent settlement of the matching sales, Amalgamated Bank reimbursed itself with the sale proceeds and credited the account with the resulting profits.

34. Hansen, Sloan and Zim knew or recklessly disregarded that they had misled their brokers when they opened accounts and when they ordered trades. Among other things, Hansen, Sloan and Zim knew or recklessly disregarded the amount of capital that the Albion clearing account had available on a daily basis, the volume of Albion's trading activity and the fact that Albion's trades were matched at the end of the day.

35. On or about March 22, 1990, Zim instructed Amalgamated Bank to close the Albion account and to transfer \$70,000 of the funds to a clearing account at Marine Midland Bank in the name Eurocap Associates, Inc. ("Eurocap"). Over the life of the account, Albion withdrew funds totaling at least \$171,280, including the transfer to Marine Midland Bank.

36. As a result of their trading through the Albion account during the period December 1989 through March 22, 1990, Hansen, Sloan and Zim realized ill-gotten gains of at least \$171,280.

**HANSEN, SLOAN AND ZIM FREE-RIDE THROUGH THE EUROCAP ACCOUNT AT MARINE MIDLAND BANK**

37. Hansen, Sloan and Zim continued to mislead their brokers when they opened brokerage accounts and ordered trades and continued to free-ride through the Eurocap account at Marine Midland Bank. Zim opened the Eurocap account at Marine Midland Bank on or about March 23, 1990 with an initial deposit of \$120,000.

38. After Zim opened the Eurocap clearing account, Hansen, Sloan and Zim opened DVP/RVP cash accounts with many brokers and knowingly or recklessly provided the brokers with a new matrix of assumed names. These assumed names included Aristoff Capital Corp., Bacardi IMF, Carter Management, Cellini Investments, William Carew, William Few Management, European Capital Investors, EM&D Stephens Capital Management, Virage Capital, and Planned Insured Longevity Fund.

39. Zim additionally misled her brokers when she opened accounts by knowingly or recklessly providing the brokers with

inflated net worth figures, as summarized in paragraphs 78, 79 and 82 below.

40. Hansen, Sloan and Zim also misled their brokers when they ordered trades by knowingly or recklessly misrepresenting their intent and ability legitimately to pay for their securities purchases, and that they owned the securities that they ordered sold. From the time that the Eurocap clearing account was opened with the initial deposit of \$120,000 in March 1990 until it was closed in February 1991, Hansen, Sloan and Zim deposited only an additional \$260,000 into the account. During this same period, Hansen, Sloan and Zim proceeded to order the purchase and matching sale of over \$20 million dollars of securities that settled through the Eurocap clearing account.

41. Hansen, Sloan and Zim continued to rely upon the proceeds of offsetting sales to pay for their purchases until Marine Midland closed the account. For example, on or about March 26, 1990, Marine Midland Bank settled securities purchases costing over \$700,000, while Eurocap's account had only \$116,800 on deposit. In other instances, Eurocap continued to purchase securities even when the account became overdrawn. For example, on March 29, 1990, Marine Midland Bank settled matching purchases and sales of over \$1,143,750 while Eurocap's account was overdrawn by approximately \$89,334.89.

42. Hansen, Sloan and Zim knew or recklessly disregarded that they had misled their brokers when they opened accounts and when they ordered trades. Among other things, Hansen, Sloan and

Zim knew or recklessly disregarded the amount of capital that the Eurocap clearing account had available on a daily basis, the volume of Eurocap's trading activity and the fact that Eurocap's trades were matched at the end of the day.

43. Over the life of the account, Eurocap withdrew funds totaling over \$233,449.

44. As a result of their trading through the Eurocap account during the period March 23, 1990 through February 1991, Hansen, Sloan, and Zim, realized ill-gotten gains of at least \$233,449.

**THE DEFENDANTS TRANSFER THEIR CLEARING OPERATIONS TO  
PIB AND CONTINUE TO FREE-RIDE**

45. Thereafter, Hansen, Sloan, and Zim transferred their trading activity to PIB, where they were joined by Rowe, and separated their clearing operations as follows: Sloan and Rowe cleared their trades through clearing accounts collectively known as "The Funds;" Zim cleared her trades through an account called "Eurocap;" and Hansen cleared his trades through an account entitled "CRH Holdings, Inc."

**The Funds**

46. On approximately February 22, 1991, Sloan and Rowe opened a securities clearing account at PIB in the name of Millbrook Management, I.M.F., Inc. ("Millbrook") (which later changed its name to "The Funds") with an initial deposit of \$97,000.

47. Also on February 22, 1991, Sloan and Rowe executed "consulting agreements" with Millbrook purportedly outlining the

terms of their trading activity. The consulting agreements stated that each consultant "is expressly authorized to place orders with brokers and others, as the agent of the Corporation, for the purchase and sale of securities in accordance with certain guidelines." Although the "guidelines" purport to outline the lending requirements of Regulation U, Sloan and Rowe did not attempt to abide by these guidelines.

48. After they executed the consulting agreements, Sloan and Rowe opened DVP/RVP cash accounts with multiple brokers and provided their brokers with yet another assortment of misleading assumed names, including The Funds, Wilton Management, Inc., Gibson Island Management, Inc., and Esher Ltd.

49. As described in paragraphs 78, 80 and 82 below, Sloan and Rowe knowingly or recklessly misled their brokers when they opened accounts by providing them with inflated net worth figures to further the false impression that the accounts could finance sizable transactions. These figures ranged from \$500,000 to \$5 million within a six-month period and were not backed by funds at any bank.

50. Sloan and Rowe also continued to mislead their brokers when they ordered trades by knowingly or recklessly misrepresenting their intent and ability legitimately to pay for their purchases, and that they owned the securities that they ordered sold. From the time that The Funds' account was opened with the initial deposit of \$97,000, until May 1992, when the account closed, The Funds deposited only an additional \$187,561

into the account. During this same period, The Funds ordered approximately \$40 million of securities purchases through cash accounts at multiple brokers -- in many cases while The Funds' account was overdrawn. The Funds typically paid for these purchases with the proceeds of matched same-day sales.

51. For example, on March 22, 1991, while the balance in The Funds' clearing account totaled only \$101,198.58, including expected proceeds from the sale of securities held "long" in the account, The Funds purchased \$530,225 worth of securities matched by offsetting sales. On April 30, 1991, while The Funds' clearing account balance was only \$80,081.42, after the sale of long positions, The Funds purchased \$351,800 worth of securities matched by offsetting sales. On May 16, 1991, The Funds' account had a balance of \$67,327.66, including proceeds from the sale of a long position, and The Funds purchased \$555,462.50 worth of securities matched by offsetting sales.

52. Rowe and Sloan knew or recklessly disregarded that they misled their brokers when they opened accounts and when they ordered trades. Among other things, Rowe and Sloan knew or recklessly disregarded the amount of capital that The Funds' clearing account had available on a daily basis, the volume of The Funds' trading activity, and the fact that The Funds' trades were matched at the end of the day.

53. Over the life of the account, The Funds withdrew over \$1,043,000 in cash.



58. Zim knew or recklessly disregarded that she had misled her brokers when she opened accounts and ordered trades. Among other things, Zim knew the amount of capital that Eurocap had available on a daily basis, the volume of Eurocap's trading activity and the fact that Eurocap's trades were matched at the end of the day.

59. Over the life of the account, Eurocap withdraw funds totaling over \$380,907. .

60. As a result of her trading through the Eurocap account at PIB during March 1991 through December 1992, Zim realized at least \$380,907 in ill-gotten gains.

**CRH Holdings, Inc.**

61. On approximately March 27, 1991, Hansen opened a securities clearing account in the name CRH Holdings, Inc. ("CRH Holdings") at PIB with an initial deposit of \$20,000. Before the account was closed in March 1993, Hansen deposited only an additional \$62,907 into the account and ordered the purchase and matching sale of over \$49 million dollars worth of securities through multiple DVP/RVP cash accounts at numerous broker-dealers.

62. As described in paragraphs 78, 81 and 82 below, when Hansen opened these DVP/RVP cash accounts, Hansen provided his brokers with net worth figures that were far in excess of Hansen's actual net worth. Hansen similarly misled his brokers when he ordered trades by secretly relying on the proceeds from matching sales to pay for his purchases. For example, during the

period from March 1991 through July 1991, CRH Holdings did not have sufficient funds in its account legitimately to pay for its purchases on at least 20 separate occasions.

63. Hansen knew or recklessly disregarded that he had misled his brokers when he opened accounts and ordered trades. Among other things, Hansen knew or recklessly disregarded the amount of capital that the CRH Holdings account had available on a daily basis, the volume of CRH Holdings' activity and the fact the CRH Holdings' trades were matched at the end of the day.

64. Over the life of the account, Hansen withdrew funds totaling over \$474,651.

65. As a result of his trading through the CRH Holdings account at PIB during the period March 27, 1991 through March 1993, Hansen realized at least \$474,651 in ill-gotten gains.

#### **HANSEN CLEARS HIS TRADES THROUGH LEWCO SECURITIES**

66. As soon as PIB closed the CRH Holdings account, Hansen transferred CRH Holdings' clearing operations to Donald and Company Securities ("Donald"), a registered broker-dealer which cleared its customers' trades through Lewco Securities Corporation ("Lewco"), and funded the account with an initial deposit of approximately \$80,000.

67. Between March 1993 and about November 1993, when the account was closed, Hansen deposited no additional funds into the account. During this period, Lewco settled the purchase and matching sale of over \$7.5 million dollars worth of securities through numerous cash accounts at multiple broker-dealers.

68. From March 1993 through November 1993, on at least 25 separate occasions, CRH Holdings did not have sufficient funds in its account legitimately to pay for its purchases. For example, on June 17, 1993, with a balance of \$169,676.60, including stock held "long" in the account, CRH Holdings purchased \$475,420 worth of securities offset by matching sales. On July 9, 1993, with a balance of \$137,522.93, CRH Holdings purchased \$295,070 worth of securities offset by matching sales. On August 19, 1993, with a balance of \$106,972.48, CRH Holdings purchased \$247,355 worth of securities offset by matching sales.

69. Hansen knew or recklessly disregarded that CRH Holdings had neither the intent nor the ability legitimately to pay for securities purchases absent the proceeds from offsetting sales. Among other things, Hansen knew the amount of capital that the CRH Holdings account had available on a daily basis, the volume of CRH Holdings' trading activity and the fact that the trades were matched at the end of the day.

70. In approximately November 1993, Lewco closed Hansen's account. Over the life the account, Hansen withdrew funds totaling over \$131,400.

**THE FUNDS CLEARS ITS TRADES THROUGH FAB**

71. On approximately September 29, 1992, The Funds moved its clearing operations from PIB to French American Banking Corporation ("FAB"), and funded the account with an initial deposit of \$150,000.

72. Over the next six months, until the account was closed, The Funds proceeded to order the purchase and matching sale of over \$37 million dollars worth of securities through DVP/RVP cash accounts at multiple brokers but deposited only an additional \$51,129 into The Funds' clearing account.

73. To settle these trades, Sloan and Rowe continued to mislead their brokers when they ordered trades by concealing that they had neither the intent nor ability legitimately to pay for securities purchases absent the proceeds from offsetting sales.

74. For example, on October 21, 1992 The Funds' clearing account had a balance of \$150,688.76, which included the proceeds from the sale of a long position during the day. That day, FAB settled purchases of \$459,130 worth of securities matched by offsetting sales in The Funds' account. On the morning of October 22, 1992, The Funds' clearing account was overdrawn by \$290,026.24, because the account had not timely received the proceeds from the prior day's matching sales. Notwithstanding the overdraft, FAB settled purchases during the day, and credited The Funds' account with proceeds received from the prior day's sales and with proceeds that it received from offsetting sales, raising the balance in the account to \$75,095.06 at the end of the day. The next day, October 23, 1992, the balance in the account rose to \$84,095.06, and FAB settled purchases for The Funds costing \$384,700. These purchases were also matched with offsetting sales of the same securities.

75. Sloan and Rowe knew or recklessly disregarded that they had misled their brokers when they ordered trades. Among other things, Sloan and Rowe knew or recklessly disregarded the amount of capital that The Funds clearing account had available on a daily basis, the volume of the account's trading activity, and the fact that The Funds' trades were matched at the end of the day.

76. In approximately March 1993, FAB closed The Funds' account. Before the account was closed, The Funds withdrew over \$482,000.

77. As a result of The Funds' trading through FAB during the period September 29, 1992 through March 1993, Sloan and Rowe realized ill-gotten gains of at least \$482,000, as follows:

Rowe	\$95,241.03
Sloan	\$386,758.97

**THE INDIVIDUAL DEFENDANTS PROVIDE BROKERS WITH FALSE FINANCIAL INFORMATION WHEN OPENING ACCOUNTS**

78. During the course of their scheme, the Individual Defendants provided their brokers with false financial information when they opened accounts to give the false impression that they could legitimately pay for the securities they ordered purchased.

79. For example, Zim provided her brokers with the following false net worth figures on documentation for new accounts that cleared through Eurocap's clearing account:

<u>Broker</u>	<u>Date</u>	<u>Net Worth</u>
Lehman Brothers	2/15/90	\$27 million
CS First Boston	2/6/91	\$5 million
Lehman Brothers	3/16/92	\$5 million

80. Sloan and Rowe provided their brokers with the following false net worth figures on documentation for new accounts that cleared through The Funds' account at PIB and FAB:

Rowe:

<u>Broker</u>	<u>Date</u>	<u>Claimed Net worth</u>
Shearson Lehman	11/20/90	\$1 Million
Prudential	12/11/91	\$1 Million

Sloan:

<u>Broker</u>	<u>Date</u>	<u>Claimed Net worth</u>
Paine Webber	5/21/91	\$5 Million
Whale Securities	7/30/91	\$500,000
Paine Webber	10/11/91	\$1 Million

81. Hansen provided his brokers with the following false net worth figures on documentation for new accounts that cleared through CRH Holdings' clearing account at Lewco:

<u>Broker</u>	<u>Date</u>	<u>Claimed Net worth</u>
Prudential	April 1991	\$1 Million
Paine Webber	June 1991	\$500,000
Ladenburg	January 1992	\$1 Million

82. At the time that they provided their brokers with the above net worth information, Hansen, Sloan, Zim, and Rowe knew or recklessly disregarded that these figures were materially false.

**PIB EXTENDS EXCESSIVE CREDIT AND PIBANCORP FILES A FALSE QUARTERLY REPORT**

83. The Individual Defendants transferred their clearing activity to PIB in 1991. As recited in paragraphs 45 through 65 above, from the time that the Individual Defendants opened their clearing accounts until the accounts were closed, PIB settled tens of millions of dollars of securities trades for the accounts while these accounts did not have sufficient funds to pay for their purchases.

84. PIB settled the Individual Defendants' trades by extending credit in excess of the amounts permitted by Regulation U to pay for their securities purchases and then reimbursing itself with the proceeds received from offsetting sales of the same securities. The purchased securities were principally exchange-listed or OTC-traded "margin stocks," within the meaning of Regulation U.

85. PIB in many instances extended 100 percent financing to pay for purchases of securities by the Individual Defendants. As a result, PIB's trust accounts incurred large overdrafts. Further, as a result of unprocessed trades and "split day settlements," PIB often financed 100% of the Individual Defendants' securities purchases overnight.

86. The credit that PIB extended to settle the Individual Defendants' trades was directly or indirectly secured by margin stock, within the meaning of Regulation U.

87. As a result of PIB's settlement of the Individual Defendants' trades, PIB failed to keep books and records which in reasonable detail accurately and fairly reflected the transactions and disposition of assets in the Individual Defendants' accounts, and failed to maintain an adequate system of internal accounting controls.

88. On May 14, 1992, PIBancorp, the corporate parent of PIB, filed its March Form 10-Q stating that the company's consolidated balance sheet "includes a receivable from DTC of

\$8,570,000, resulting from [PIB's] securities settlement activity in its Trust Division" due to "large operational backlogs."

89. In fact, the \$8.5 million figure represented the dollar amount of proceeds expected from the bank's unprocessed securities sales from the Individual Defendants' free-riding accounts as of March 31, 1992.

90. The misstatement in PIBancorp's March Form 10-Q was material.

#### FIRST CLAIM FOR RELIEF

**THE INDIVIDUAL DEFENDANTS MADE MISREPRESENTATIONS TO BROKERS WHEN OPENING NEW ACCOUNTS AND WHEN ORDERING TRADES IN VIOLATION OF 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, 17 C.F.R. § 240.10b-5**

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91. Plaintiff incorporates paragraphs 1 through 90 by reference as if fully set forth herein.

92. The Individual Defendants from approximately August 1989 to the present, directly and indirectly, singly and in concert, by use of the means or instruments of transportation or communication in interstate commerce, and the means and instrumentalities of interstate commerce, or of the mails, or of the facilities of a national securities exchange, in the offer or sale and in connection with the purchase or sale of securities:

1) have employed devices, schemes, and artifices to defraud; 2) have obtained money or property by means of, and have made, untrue statements of a material fact, and have obtained money or property by means of omitting, and have 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 3) have engaged in acts, practices and courses of business which operated as a fraud and deceit upon purchasers and sellers of securities and upon other persons.

93. As part of and in furtherance of this violative conduct, the Individual Defendants knowingly, or with reckless disregard for the truth, made materially false and misleading statements concerning the net worth of accounts they opened with their brokers, as more fully described in paragraphs 23, 34 and 78 through 82, above.

94. Also, as part of and in furtherance of this violative conduct, the Individual Defendants knowingly, or with reckless disregard for the truth, misled their executing brokers when ordering securities trades by inter alia concealing that they did not have the intent or ability to pay for the securities that they ordered purchased absent the proceeds from matching same-day sales, and did not own the securities that they ordered sold, absent delivery of the matching purchased securities, as more fully described in paragraphs 24, 31-34, 40-42, 50-52, 57, 58, 68, 69 and 73 through 75, above.

95. By reason of these activities, The Individual Defendants, directly and indirectly, violated, and unless permanently restrained and enjoined, will continue to violate, 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, 17 C.F.R. § 240.10b-5.

SECOND CLAIM FOR RELIEF

THE INDIVIDUAL DEFENDANTS CAUSED THEIR CLEARING AGENTS TO  
EXTEND CREDIT IMPROPERLY IN ORDER TO PURCHASE OR CARRY  
SECURITIES IN VIOLATION OF SECTION 7(f) OF THE EXCHANGE ACT,  
15 U.S.C. § 78g(f), AND REGULATION X, 12 C.F.R. § 224

96. Plaintiff incorporates paragraphs 1 through 95 by reference as if fully set forth herein.

97. The Individual Defendants, from December 1989 to the present, directly and indirectly, singly and in concert, willfully obtained, received or enjoyed the beneficial use of loans or other extensions of credit from lenders for the purpose of purchasing or carrying securities in violation of Section 7(f) of the Exchange Act, 15 U.S.C. § 78g(f), and Regulation X, 12 C.F.R. § 224, promulgated by the Federal Reserve Board.

98. As part of and in furtherance of this violative conduct, the Individual Defendants ordered purchases of securities in cash accounts without having sufficient funds to pay for the securities either in the cash accounts or elsewhere absent proceeds from offsetting sales of the same securities, as more fully described in paragraphs 24, 31-34, 40-42, 50-52, 57, 58, 68, 69 and 73 through 75, above.

99. Also, as part of and in furtherance of this violative conduct, the Individual Defendants ordered sales of securities in cash accounts without owning the securities, instead relying on anticipated deliveries of securities from offsetting purchases to provide the means for settlement, as more fully described in

paragraphs 24, 31-34, 40-42, 50-52, 57, 58, 68, 69 and 73 through 75, above.

100. By virtue of the foregoing conduct, the Individual Defendants willfully caused credit to be extended in contravention of Regulation U, 12 C.F.R. § 221, and Regulation T, 12 C.F.R. § 220. As a result, the Individual Defendants directly and indirectly violated, and unless permanently restrained and enjoined, will continue to violate Regulation X, 12 C.F.R. § 224, and Section 7(f) of the Exchange Act, 15 U.S.C. § 78g(f).

### THIRD CLAIM FOR RELIEF

#### PIB IMPROPERLY EXTENDED CREDIT TO THE INDIVIDUAL DEFENDANTS IN VIOLATION OF REGULATION U, 12 C.F.R. § 221, AND SECTION 7(d) OF THE EXCHANGE ACT, 15 U.S.C. § 78g(d)

101. Plaintiff incorporates paragraphs 1 through 100 by reference as if fully set forth herein.

102. From February 1991 to March 1993, PIB directly or indirectly, extended or maintained, or arranged for the extension or maintenance of, credit for the purpose of purchasing or carrying securities in violation of Regulation U, 12 C.F.R. § 221, promulgated under Section 7(d) of the Exchange Act, 15 U.S.C. § 78g(d), by among other things: (a) extending credit to the Individual Defendants for the purpose of purchasing or carrying securities; (b) which credit was directly or indirectly secured by margin stock; and (c) which credit exceeded the maximum loan value of the collateral securing the credit within the meaning of Regulation U, as more fully described in paragraphs 45 through 65 and 83 through 86 above.

103. As a result, PIB directly and indirectly violated, and unless permanently restrained and enjoined, will continue to violate Regulation U, 12 C.F.R. § 221, and Section 7(d) of the Exchange Act, 15 U.S.C. § 78g(d).

#### FOURTH CLAIM FOR RELIEF

**PIBANCORP. FILED WITH THE COMMISSION FALSE REPORTS IN VIOLATION OF SECTION 13(a) OF THE EXCHANGE ACT, 15 U.S.C. § 78m(a), AND RULES 12b-20 AND 13a-13 THEREUNDER, 17 C.F.R. §§ 240.12b-20, 240.13a-13 AND FAILED TO MAINTAIN ACCURATE BOOKS AND RECORDS IN VIOLATION OF SECTION 13(b)(2) OF THE EXCHANGE ACT, 15 U.S.C. § 78m(b)(2)**

104. Plaintiff incorporates paragraphs 1 through 103 by reference as if fully set forth herein.

105. As described in paragraphs 88 through 90 above, Defendant PIBancorp failed to file with the Commission, in accordance with such rules and regulations as the Commission has prescribed, such quarterly reports as the Commission has prescribed, and, in addition to the information expressly required to be included in a statement or report, such further material information as was necessary to make the statements made, in light of the circumstances in which they were made, not misleading, in violation of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20 and 13a-13 thereunder, 17 C.F.R. §§ 240.12b-20, and 240.13a-13.

106. As described in paragraph 87 above, PIBancorp, directly or indirectly, failed to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected the transactions and dispositions of its assets, in

violation of Section 13(b)(2) of the Exchange Act, 15 U.S.C § 78m(b)(2).

**FIFTH CLAIM FOR RELIEF**

**CLAIMS AGAINST RELIEF DEFENDANTS**

107. Plaintiff incorporates paragraphs 1 through 106 by reference as if fully set forth herein.

108. During the period December 1989 through November 1993, Hansen and Sloan caused hundreds of thousand of dollars to be transferred to Christie Hansen and Burke, as follows: (a) Burke received \$152,353.70 from December 1989 through December 1992 from Sloan; and (b) Christie Hansen received \$359,000 from September 1990 through August 1993 from Hansen.

109. These monies comprised the proceeds of the unlawful activities of the above Individual Defendants, and are subject to disgorgement.

110. On information and belief, Christie Hansen and Burke are not and were not bona fide purchasers of these assets.

111. Christie Hansen and Burke obtained these funds as part of and in furtherance of the securities violations alleged herein under circumstances in which it is not just, equitable, or conscionable for them to retain these funds.

112. As a consequence of the foregoing, Christie Hansen and Patricia Burke have been unjustly enriched.

**WHEREFORE** plaintiff Securities and Exchange Commission respectfully requests that this Court:

I.

Enter a final judgment permanently restraining and enjoining the Individual Defendants, and each of them, directly or indirectly, singly or in concert, from engaging in any transactions, acts, practices or courses of business in violation of Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

II.

Enter a final judgment permanently restraining and enjoining the Individual Defendants, and each of them from, directly or indirectly, singly or in concert, in connection with the purchase or sale of any security, by the use of any means or instrumentalities of interstate commerce or of the mails, 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.

III.

Enter a final judgment permanently restraining and enjoining the Individual Defendants, and each of them from, directly or indirectly, singly or in concert, violating Section 7(f) of the Exchange Act, 15 U.S.C. § 78g(f), and Regulation X, 12 C.F.R. § 224, promulgated by the Federal Reserve Board.

IV.

Enter a final judgment permanently restraining and enjoining PIB from, directly or indirectly, singly or in concert, violating Section 7(d) of the Exchange Act, 15 U.S.C. § 78g(d), and Regulation U, 12 C.F.R. § 224, promulgated by the Federal Reserve Board.

V.

Enter a final judgment permanently restraining and enjoining PIBancorp, directly or indirectly, from violating Sections 13(a) and 13(b)(2) of the Exchange Act, 15 U.S.C §§ 78m(a), 78m(b)(2), and Rules 12b-20 and 13a-13 thereunder, 17 C.F.R. §§ 240.12b-20, 240.13a-13.

VI.

Issue an Order requiring the Individual Defendants to disgorge all funds and benefits they obtained as a result of the violations alleged herein, and to pay prejudgment interest thereon.

VII.

Issue an order imposing civil penalties on the Individual Defendants pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15 U.S.C. 78u(d)(3).

VIII.

Issue an order imposing civil penalties on PIB pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15 U.S.C. 78u(d)(3).

IX.

Issue an order permanently enjoining Hansen, Sloan and Zim directly and indirectly from engaging in any securities transactions in the future.

X.

Award such other and further relief as the Court may deem appropriate.

Dated: New York, New York  
October 25, 1995

  
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