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**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

DAVID E. LIPSON,

Defendant.

97 C 2661
No.

COMPLAINT

JUDGE HOLDERMAN

MAGISTRATE JUDGE PALLMEYER

Plaintiff Securities and Exchange Commission (the "Commission") alleges as follows:

NATURE OF THE PROCEEDING

1. The Commission brings this action against David E. Lipson ("Lipson"), for insider trading in the securities of Supercuts, Inc. ("Supercuts"), formerly a NASDAQ-listed company located in San Francisco, California. In March and April 1995, Lipson, who was then Supercuts' chairman, chief executive officer and largest shareholder, sold 365,000 shares of Supercuts common stock at prices between \$9.50 and \$9.3125 in an account that he controlled in his son's name. At the time of his sales, Lipson possessed material nonpublic information about Supercuts' disappointing financial performance during the quarter ended March 31, 1995. After the company announced its quarterly results on May 12, 1995, the price of the company's common stock fell from \$9.00 to \$7.625 per share. By selling Supercuts common

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stock while in possession of material nonpublic information, Lipson breached duties he owed to Supercuts' shareholders and avoided losses of approximately \$621,875.

2. By virtue of the conduct described herein, Defendant Lipson, directly and indirectly, engaged in transactions, acts, practices and courses of business in violation of Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)], and Sections 10(b) and 16(a) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78j(b) and 78p(a)] and Rules 10b-5, 16a-2 and 16a-3 thereunder [17 C.F.R. §§ 240.10b-5, 240.16a-2 and 240.16a-3].

3. The Commission brings this action pursuant to Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)], and Sections 21(d) and (e) of the Exchange Act [15 U.S.C. §§ 78u(d) and (e)] for an order permanently restraining and enjoining Lipson, ordering disgorgement of unlawful profits, imposing penalties and for other relief.

4. Defendant Lipson, unless restrained and enjoined, will continue to engage in transactions, acts, practices, and courses of business as set forth in this Complaint, or in transactions, acts, practices, and courses of business of similar purport and object.

JURISDICTION

5. This Court has jurisdiction pursuant to Section 22 of the Securities Act [15 U.S.C. § 77v], and Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa]. Venue lies

in this Court pursuant to Section 22 of the Securities Act and Section 27 of the Exchange Act.

DEFENDANT

6. David E. Lipson, age 58 and a resident of Chicago, Illinois, is self-employed as a merchant banker with Knightsbridge Partners ("Knightsbridge"), also located in Chicago, Illinois. From 1991 through January 4, 1996, Lipson served as the chairman and chief executive officer ("CEO") of Supercuts. Prior to his tenure at Supercuts, Lipson, a certified public accountant and lawyer, was a partner for 25 years at Arthur Andersen & Co., and the chief financial officer at Beatrice Foods, Inc.

FIRST CLAIM

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

7. In 1987, Supercuts was acquired in a leveraged buyout by Knightsbridge, a partnership controlled by Lipson. Shortly after taking Supercuts public in 1991, Lipson became the CEO and chairman of the board, and controlled over 37 percent of the outstanding shares of the company, represented by 2.3 million shares. Lipson remained a principal shareholder in Supercuts, controlling in excess of 15 percent of the outstanding shares until March 1996, when he sold all of his remaining shares.

8. In November 1994, the budget for Supercuts' 1995 fiscal year was approved by the company's board of directors after detailed review by Lipson. The budget contained estimates of earnings for each of the divisions of Supercuts. Lipson knew how

each division would need to perform to meet the budgeted estimates for the company as a whole. Overall, the company's budget projected earnings of \$0.14 per share for the first quarter 1995, assuming all sales and cost estimates were met.

9. At the time the budget was approved, and throughout the first quarter 1995, Lipson knew that analysts' earnings expectations for Supercuts' first quarter 1995 were between \$0.17 and \$0.18 per share. Lipson also knew that any shortfall in sales revenues or unanticipated increase in costs would bring Supercuts' earnings for the first quarter 1995 even further below analysts' consensus expectations.

10. On February 16, 1995, Lipson received Supercuts' internal sales report for the month of January reflecting that sales in the retail operations division were \$1.08 million, or 16 percent, below budget.

11. On March 8, 1995, Lipson received the sales report for the month of February reflecting that sales in the retail operations division were an additional \$1.1 million, or 16.5 percent, below budget.

12. On April 6, 1995, Lipson received the sales report for the month of March reflecting that sales in the retail operations division were an additional \$982,259, or 13.3 percent, below budget.

13. In addition to the sales reports, Lipson received and discussed with Supercuts' personnel several other reports reflecting that Supercuts would report earnings for the first

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quarter 1995 substantially below analysts' consensus expectations.

14. The information described in paragraphs 10 through 13 was material and, until May 12, 1995, was nonpublic.

15. Throughout the period that Lipson was receiving material, nonpublic information about Supercuts' deteriorating financial performance, he was selling Supercuts stock through an account that he controlled in the name of his son, Laurence Lipson, in violation of duties he owed to Supercuts' shareholders.

16. On March 21, 1995, Lipson opened a brokerage account in his son's name at Jefferies & Co. ("Jefferies") in Los Angeles, California, and sold 65,000 shares of Supercuts stock at \$9.50 per share. Lipson wired the proceeds of the sale, amounting to \$617,500, to entities that he controlled. Lipson used the proceeds to pay off his personal debts and debts owed by various other entities that he controlled.

17. On March 31, 1995, Lipson transferred 200,000 shares of Supercuts stock from Knightbridge and another entity that he controlled to his son's account at Jefferies. Lipson sold these shares through his son's Jefferies account in two transactions, 100,000 shares at \$9.25 per share on April 3, 1995, and 100,000 shares at \$9.3125 per share on April 10, 1995. Lipson wired the proceeds, amounting to \$1,856,250, to entities that he controlled.

18. On April 19, 1995, Lipson sold another 100,000 shares at \$9.3125 per share through his son's Jefferies account. As with the other trades, Lipson wired the proceeds, amounting to \$931,250, to entities that he controlled.

19. On May 12, 1995, as anticipated by all of the nonpublic internal reports reviewed by Lipson, Supercuts announced first quarter earnings of \$0.07 per share, 50 percent below budget, well below analysts' consensus estimates of \$0.17 to \$0.18 per share, and considerably short of the company's earnings of \$0.16 per share for the first quarter of the prior year. After the results were released, Supercuts stock dropped \$1.375 per share to close at \$7.625. Measured by this closing price, Lipson's sales in March and April 1995 resulted in losses avoided of \$621,875.

20. By reason of the foregoing, defendant Lipson violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

SECOND CLAIM

Violations of Section 16(a) of the Exchange Act and Rules 16a-2 and 16a-3 thereunder

21. Section 16(a) of the Exchange Act, and Rules 16a-2 and 16a-3 thereunder require that officers, directors and principal stockholders of public companies disclose on forms filed with the Commission within ten days after the close of each calendar month, any change in beneficial ownership of the company's securities during the month. Beneficial ownership is defined as

the opportunity, directly or indirectly, to profit or share in any profit derived from any transaction in the securities.

22. At the time of Lipson's sales of Supercuts stock in March and April 1995, he was an officer, director and principal stockholder of the company. Lipson failed to file reports with the Commission for his sales on March 21, 1995, April 3, 1995, April 10, 1995 and April 19, 1995.

23. By reason of the foregoing, defendant Lipson violated Section 16(a) of the Exchange Act and Rules 16a-2 and 16a-3 thereunder.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

(a) find that David E. Lipson violated Section 17(a) of the Securities Act and Sections 10(b) and 16(a) of the Exchange Act and Rules 10b-5, 16a-2 and 16a-3 thereunder;

(b) enjoin Lipson from violating Section 17(a) of the Securities Act and Sections 10(b) and 16(a) of the Exchange Act and Rules 10b-5, 16a-2 and 16a-3 thereunder;

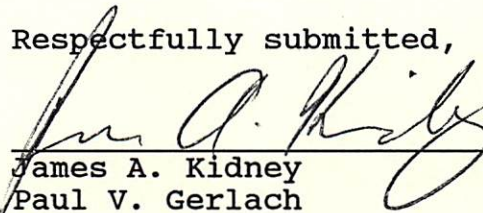
(c) order Lipson to disgorge the losses he avoided plus prejudgment interest accruing from the date the losses were avoided;

(d) order Lipson to pay civil penalties pursuant to Section 21A(a) of the Exchange Act [15 U.S.C. § 78u-1(a)]; and

(e) grant such other relief as this Court may deem appropriate.

Dated: April 16, 1997

Respectfully submitted,



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