

GLEESON, J.

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MANUAL FILE

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CV 00 3632

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

STEVE MADDEN,

Defendant.

00 Civ. ()

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission"), for its Complaint
against defendant Steve Madden ("Madden"), alleges as follows:

INTRODUCTION

1. Madden played a crucial role in the fraudulent manipulation of several initial
public offerings ("the IPOs") underwritten by Stratton Oakmont, Inc. ("Stratton") and
Monroe Parker Securities, Inc. ("Monroe") between May 1991 and March 1997. Stratton
and Monroe were notorious boiler room operations that manipulated at least twenty-two
IPOs, which they would not have been able to do without the participation of a few

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carefully screened “flippers.” Flippers are individuals who purchased the IPO stock, then quickly sold it back to Stratton or Monroe, thereby hiding the fact that Stratton or Monroe retained control over almost all of the outstanding shares for each issue they brought public. Madden was considered a reliable flipper by both Stratton and Monroe, and, as such, participated in the manipulation of at least twenty-two IPOs.

2. Madden’s role in the Stratton and Monroe manipulations took two forms. In the majority of the IPOs, Madden acted as a flipper. Pursuant to undisclosed repurchase agreements, he received substantial allotments of shares in the IPOs. Then, shortly after trading in the aftermarket commenced, Madden sold the shares back to Stratton or Monroe at pre-arranged prices (usually slightly above Madden’s purchase prices). These secret arrangements earned Madden a stream of illegal profits and helped Stratton and Monroe control most of the IPO shares. Once in control of the “float,” Stratton and Monroe were able to manipulate the IPO stocks’ prices higher before selling the shares to unsuspecting investors at inflated prices.

3. In at least five of the IPO manipulations, Madden played a second, similar role. In these IPOs, Madden received “bridge” units as part of his compensation for making bridge loans to the issuers. Although Madden signed “lock-up” agreements precluding him from selling his shares in these issuers for at least one year after an IPO, he entered into secret agreements with Stratton and Monroe by which they would release him from the lock-up agreements in order to sell his shares back to Stratton or Monroe as soon as trading began in the aftermarket. Thus, Madden earned a quick profit on the bridge units while helping Stratton and Monroe to control the outstanding float of the IPOs. Also, by

immediately putting the bridge units back into the hands of Stratton and Monroe, Madden gave the firms more IPO stock to later resell to their customers at artificially inflated prices.

4. Madden also participated in the fraudulent manipulation of the stock of his own company, Steve Madden Ltd. ("SHOO"), during its December 1993 IPO.

Furthermore, Madden made material false statements and omissions in the prospectuses that SHOO supplied to investors in connection with the IPO and a subsequent sale of SHOO securities.

VIOLATIONS

5. Madden, directly or indirectly, singly or in concert, knowingly or recklessly, engaged in transactions, acts, practices, and courses of business that 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 Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. 240.10b-5 thereunder. Unless Madden is enjoined, he will again engage in transactions, acts, practices, and courses of business of similar purport and object.

JURISDICTION AND VENUE

6. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act, 15 U.S.C. § 77t(b), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d), to obtain a final judgment permanently enjoining Madden from future violations of the federal securities laws and ordering Madden to account for and to disgorge his ill-gotten gains, plus prejudgment interest. The Commission also brings this action 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), for a

final judgment ordering Madden to pay civil money penalties. Finally, the Commission brings this action pursuant to Sections 20(e) of the Securities Act, 15 U.S.C. § 77t(e), and 21(d)(2) of the Exchange Act, 15 U.S.C. § 78u(d)(2), to obtain an order barring Madden from serving as an officer or director of a public company.

7. This Court has jurisdiction over this action, and venue is proper, pursuant to Sections 20(d) and 22(a) of the Securities Act, 15 U.S.C. §§ 77t(d) and 77v(a), and Sections 21(d), 21(e), and 27 of the Exchange Act, 15 U.S.C. §§ 78u(d), 78u(e), and 78aa.

8. Madden, directly or indirectly, singly or in concert, made use of the means or instruments of transportation or communication in, and the means or instrumentalities of, interstate commerce, or of the mails, in connection with the transactions, acts, practices, and courses of business alleged herein. Certain of the transactions, acts, practices, and courses of business alleged herein took place in the Eastern District of New York, including, but not limited to, purchasing the IPO securities, and using the telephone to communicate with the principals of Stratton and Monroe while they were located in this District.

DEFENDANT

9. Madden, age 42, of New York, New York, is the Chairman and CEO of SHOO. As described below, Madden maintained brokerage accounts at Stratton and Monroe, and used these accounts to execute manipulative purchases and sales of securities.

OTHER RELEVANT ENTITIES AND INDIVIDUALS

10. SHOO is a New York corporation headquartered in Long Island City, NY. SHOO securities are registered with the Commission pursuant to Section 12(g) of the Exchange Act, 15 U.S.C. §§ 78l(g), and are traded on the National Association of

Securities Dealers' (the "NASD's") Automated Quotation System ("NASDAQ"). The company, whose current market capitalization is approximately \$180 million, designs, sources, and sells fashion footwear under the Steve Madden, Lei, and David Aaron brands.

11. Stratton was, from 1989 to 1996, a broker-dealer located in Lake Success, New York, and was registered with the Commission pursuant to Section 15(b) of the Exchange Act, 15 U.S.C. §§ 78o(b). Stratton was one of the largest and most notorious illegal boiler room operations in history. Stratton underwrote dozens of IPOs, including SHOO's IPO, virtually all of which were illegal market manipulations designed to defraud unsuspecting investors. After numerous lawsuits filed by the Commission, Stratton was closed down in December 1996, and declared bankruptcy in January 1997.

12. Jordan Belfort ("Belfort"), age 37, of New York, New York, was Stratton's founder and chairman until he was permanently barred from the securities industry in 1994.

13. Daniel Porush, age 43, of Boca Raton, Florida, was President and CEO of Stratton until it was shut down in 1996. He was permanently barred from the securities industry in 1996. Porush has known Madden since childhood.

14. Monroe was, from 1994 to 1997, a broker-dealer located in Purchase, New York, and was registered with the Commission pursuant to Section 15(b) of the Exchange Act, 15 U.S.C. §§ 78o(b). Monroe was founded by two former Stratton brokers, Bryan Herman ("Herman") and Alan Lipsky, in 1993 under the supervision of Belfort. Belfort formed Monroe so that he would have another brokerage firm from which to continue defrauding investors in Stratton-style IPO manipulations in the event that Stratton was forced to go out of business. Monroe was a boiler room operation which participated in

several Stratton IPOs and underwrote three IPOs of its own. Monroe voluntarily closed in December 1997.

15. Bryan Herman (“Herman”), age 34, of New York, New York, was a registered representative of and equity-holder in Stratton before he left to start Monroe in 1993.

FACTS

Porush Recruits Madden to Participate in the Stratton Manipulation Scheme

16. In the spring of 1991, Madden was recruited by his childhood friend Porush to assist him in manipulating Stratton IPOs. With the understanding that he would incur no risk, Madden agreed to buy stock in Stratton IPOs, and then sell that stock back to Stratton. Madden understood that the Stratton IPOs were rigged, and he agreed to follow the instructions of Porush and Belfort.

17. Madden understood that Stratton would make illegal profits by manipulating the prices of Stratton IPO stocks. In particular, Madden understood that, once Stratton bought the IPO stock back from Madden and other “flippers,” Stratton would control almost all of the IPO company’s outstanding stock (the “float”). Stratton would then be able to drive the stock’s price up by directing other confederates to continuously buy small lots of the stock “at the market.” Once the price rose to a certain level, the stock would be sold to Stratton’s customers. Madden understood how the Stratton boiler room operation worked, and knew that unsuspecting Stratton customers were convinced by aggressive salesmen to buy the Stratton IPO stocks at the artificially high prices.

18. Porush also explained that Madden would be allowed to earn a predetermined profit on each transaction. If Madden sold a stock back to Stratton at a price

higher than the predetermined price (because, for example, trading in the aftermarket had moved the price of the stock up too quickly), Madden agreed to return the excess profits to Stratton by allowing Porush to execute “losing” transactions between Madden’s brokerage accounts and Stratton’s proprietary trading accounts.

Madden Acts as a Flipper for Stratton

19. Madden first participated in the manipulation of a Stratton IPO by buying 2,000 units (packages of shares and warrants) of Ropak Laboratories, a Stratton IPO, on or about May 23, 1991. Madden made the purchase with money lent to him by Porush. Between May 1991 and August 1995, Madden acted as a flipper in at least fifteen Stratton manipulations. The following trades were made by Madden while acting as a Stratton flipper:

| IPO Stock Name | Date of Purchase | Units Purchased | Purchase Price | Amount of Investment | Date of Sale | Sale Price | Proceeds from Sale | Madden's Profit |
|---|------------------|-----------------|----------------|----------------------|--------------|------------|--------------------|-----------------|
| Ropak Laboratories (Units) | 5/23/91 | 2,000 | 4 1/2 | \$9,000.00 | 5/23/91 | 7 1/2 | \$15,000.00 | \$6,000.00 |
| Licon International, Inc. (Units) | 8/21/91 | 2,000 | 3 3/4 | \$7,500.00 | 8/21/91 | 4 3/4 | \$9,500.00 | \$2,000.00 |
| Healthcare Imaging Services (Units) | 11/19/91 | 1,000 | 10 | \$10,000.00 | 11/19/91 | 13 1/2 | \$13,500.00 | \$3,500.00 |
| Nutrition Management Services (Units) | 2/5/92 | 5,000 | 5 | \$25,000.00 | 2/5/92 | 6 | \$30,000.00 | \$5,000.00 |
| SMT Health Services (Units) | 3/11/92 | 3,000 | 5 | \$15,000.00 | 3/11/92 | 6 | \$18,000.00 | \$3,000.00 |
| Computer Marketplace, Inc. (Units) | 6/29/93 | 30,000 | 4 | \$120,000.00 | 6/29/93 | 12 1/4 | \$367,500.00 | \$247,500.00 |
| Master Glazier's Karate International, Inc. (Units) | 10/25/93 | 70,000 | 4 | \$280,000.00 | 10/25/93 | 8 3/8 | \$586,250.00 | \$306,250.00 |
| M.H. Meyerson & Co., Inc. (Units) | 1/26/94 | 80,000 | 4 | \$320,000.00 | 1/26/94 | 4 1/2 | \$360,000.00 | \$40,000.00 |

| | | | | | | | | |
|----------------------------------|----------|--------|-------|--------------|----------|-------|--------------|--------------|
| Octagon Inc. (Units) | 2/24/94 | 20,000 | 7 | \$140,000.00 | 2/24/94 | 8 1/2 | \$170,000.00 | \$30,000.00 |
| IDM Environmental Corp. (Units) | 4/28/94 | 60,000 | 4 | \$240,000.00 | 4/28/94 | 5 | \$300,000.00 | \$60,000.00 |
| Childrobics, Inc. (Units) | 6/22/94 | 45,550 | 4 | \$182,200.00 | 6/22/94 | 5 | \$227,750.00 | \$45,550.00 |
| Solomon Page Group, Ltd. (Units) | 10/27/94 | 50,000 | 4 | \$200,000.00 | 10/27/94 | 6 3/8 | \$318,750.00 | \$118,750.00 |
| United Leisure Corp. (Units) | 11/18/94 | 55,800 | 3 1/2 | \$195,300.00 | 11/18/94 | 3 7/8 | \$216,225.00 | \$20,925.00 |
| Czech Industries, Inc. (Units) | 6/16/95 | 40,000 | 7 | \$280,000.00 | 6/16/95 | 12 | \$480,000.00 | \$200,000.00 |
| MVSI, Inc. (Units) | 8/22/95 | 20,000 | 7 | \$140,000.00 | 8/22/95 | 9 1/2 | \$190,000.00 | \$50,000.00 |

20. Madden was not allowed to keep all of the profits described in paragraph 19.

Per his agreement with Porush, Madden returned profits in excess of the predetermined profits by allowing Porush to execute “losing” transactions between Madden’s brokerage accounts and Stratton’s proprietary trading accounts. For example, Madden was supposed to earn a profit of \$1.00 per share when he “flipped” his SOLP IPO stock back to Stratton on October 27, 1994. However, Madden actually earned \$2.375 per share. To return the excess profits to Stratton, Madden allowed Porush to cause Madden’s brokerage account to purchase 700,000 shares of Childrobics stock from Stratton’s trading account at a price of \$0.4375 per share on October 27, 1994, and then to sell the stock back to Stratton’s trading account on October 28, 1994 at a price of \$0.34375 per share. Through these transactions, Madden suffered an intentional loss of \$65,625, which offset the \$68,750 of excess profits that he had made on the SOLP “flip.”

Madden Participates in Stratton Manipulations by Selling Bridge Units Back to Stratton Prior to the Expiration of the Units' Lock-up Periods

21. At the time of the SOLP IPO, Madden received 21,875 "bridge" units in return for making a bridge loan to SOLP. As part of this transaction, Madden's bridge units were subject to a "lock-up" restriction which prevented Madden from selling his shares in the aftermarket for thirteen months without Stratton's consent. This lock-up restriction was described in SOLP's prospectus. In fact, contrary to the prospectus, Porush and Madden had a secret agreement to release Madden from the lock-up restriction as soon as trading commenced in the aftermarket. Pursuant to this secret agreement, Madden consented to sell the 21,875 bridge units back to Stratton at a price below the IPO offering price. Madden sold his 21,875 SOLP bridge units back to Stratton for \$2.00 per unit, or \$43,750, on or about October 27, 1994. By selling his bridge units back to Stratton as soon as trading commenced in the aftermarket, Madden enabled Stratton to earn illegal profits through its subsequent sale of the 21,875 SOLP units to unsuspecting Stratton customers after Stratton had manipulated the units up to an artificially inflated price.

22. Madden also participated in the manipulation of Stratton's IPO for Paramount Financial Corp. ("Paramount"). At the time of the Paramount IPO, Madden received 131,250 bridge units in return for making a bridge loan to Paramount. As part of this transaction, Madden's bridge units were subject to a lock-up restriction which prevented Madden from selling his shares in the aftermarket for thirteen months without Stratton's consent. This lock-up restriction was described in Paramount's prospectus. In fact, contrary to the prospectus, Porush and Madden had a secret agreement to release Madden from the lock-up restriction as soon as trading commenced in the aftermarket.

Pursuant to this secret agreement, Madden consented to sell the 131,250 bridge units back to Stratton at a price below the IPO offering price. Madden sold his 131,250 Paramount bridge units back to Stratton for \$1.25 per unit, or \$164,062.50, on or about January 26, 1996. By selling his bridge units back to Stratton as soon as trading commenced in the aftermarket, Madden enabled Stratton to earn illegal profits through its subsequent sale of the 131,250 Paramount units to unsuspecting Stratton customers after Stratton had manipulated the units up to an artificially inflated price.

23. Madden also participated in the manipulation of Stratton's IPO for N-Vision, Inc. ("NVSN"). At the time of the NVSN IPO, Madden received 247,500 bridge units in return for making a bridge loan to NVSN. As part of this transaction, Madden's bridge units were subject to a lock-up restriction which prevented Madden from selling his shares in the aftermarket for thirteen months without Stratton's consent. This lock-up restriction was described in NVSN's prospectus. In fact, contrary to the prospectus, Porush and Madden had a secret agreement to release Madden from the lock-up restriction as soon as trading commenced in the aftermarket. Pursuant to this secret agreement, Madden consented to sell the 247,500 bridge units back to Stratton at a price below the IPO offering price. Madden sold his 247,500 NVSN bridge units back to Stratton for \$2.00 per unit, or \$495,000, on or about May 31, 1996. By selling his bridge units back to Stratton as soon as trading commenced in the aftermarket, Madden enabled Stratton to earn illegal profits through its subsequent sale of the 247,500 NVSN units to unsuspecting Stratton customers after Stratton had manipulated the units up to an artificially inflated price.

24. Madden also participated in the manipulation of Stratton's IPO for International Dispensing Corp. ("IDC"). At the time of the IDC IPO, Madden received

75,000 bridge units in return for making a bridge loan to IDC. As part of this transaction, Madden's bridge units were subject to a lock-up restriction which prevented Madden from selling his shares in the aftermarket for thirteen months without Stratton's consent. This lock-up restriction was described in IDC's prospectus. In fact, contrary to the prospectus, Porush and Madden had a secret agreement to release Madden from the lock-up restriction as soon as trading commenced in the aftermarket. Pursuant to this secret agreement, Madden consented to sell the 75,000 bridge units back to Stratton at a price below the IPO offering price. Madden sold his 75,000 IDC bridge units back to Stratton for \$9.50 per unit, or \$712,500, on or about October 16, 1996. By selling his bridge units back to Stratton as soon as trading commenced in the aftermarket, Madden enabled Stratton to earn illegal profits through its subsequent sale of the 75,000 IDC units to unsuspecting Stratton customers after Stratton had manipulated the units up to an artificially inflated price.

Manipulation and Fraud in the SHOO IPO

25. In 1993, Madden's shoe business consisted mainly of Madden creating prototype women's shoes, which he would bring to shoe stores and other retailers in an attempt to solicit orders. If the stores or retailers agreed to buy Madden's shoes, Madden contracted out the manufacturing of the shoes, and then delivered them to the stores or retailers.

26. Early in 1993, Madden began planning with Belfort and Porush to bring Madden's shoe business public in a Stratton IPO. Belfort, Porush, and Madden agreed that the IPO of Madden's shoe business would be a manipulation similar to previous Stratton IPO manipulations, such as the Computer Marketplace, Inc. and Master Glazier's Karate International, Inc. manipulations, in which Madden had participated. Madden agreed to

follow Belfort's and Porush's instructions in return for their promise that, even if SHOO (the public company created by the IPO of Madden's shoe business) went bankrupt, Madden would make money on the SHOO IPO.

27. As Chairman and CEO of SHOO, Madden was ultimately responsible for the contents of SHOO's prospectus, and he signed SHOO's registration statement. Madden never disclosed to investors, in SHOO's prospectus or elsewhere, that the SHOO IPO was to be a fraudulent manipulation in which Stratton would control the float of SHOO's stock. This information would have been material to SHOO's investors.

28. Specifically, SHOO's prospectus failed to disclose that Stratton had given SHOO IPO shares to flippers who had agreed to sell their shares back to Stratton as soon as trading commenced in the aftermarket. This information would have been material to SHOO's investors.

29. SHOO's prospectus contained a description concerning bridge units issued to Don Jen, Inc. ("DJI") and Albert Honigman ("Honigman"). The principal of DJI was Elliot Lavigne, whom Madden knew to be a Stratton flipper. The prospectus stated that 100,000 bridge units were given to DJI, and that 50,000 bridge units were given to Honigman, which units could not be sold without Stratton's permission for a period of thirteen months. Madden knew that Stratton intended to, and did, release DJI and Honigman from their lock-up agreements as soon as trading commenced in the aftermarket. Accordingly, the description in SHOO's prospectus concerning the bridge units issued to DJI and Honigman was materially false and misleading.

30. The SHOO prospectus failed to disclose that, as a result of the flipper arrangements described in paragraphs 28 and 29, Stratton would and did control the

outstanding float for SHOO shares, or that as a result Stratton intended to and did manipulate the price of SHOO stock up to an artificially high level. The prospectus failed to disclose that Stratton would and did earn substantial profits by selling to Stratton customers the shares it had purchased from the flippers and bridge lenders.

31. Prior to the SHOO IPO, Belfort, Porush, and Kenneth Greene ("Greene"), another Stratton principal, had planned to receive large blocks of SHOO stock in return for their initial investments in SHOO and for bringing SHOO public. However, the NASD refused to list SHOO's stock on the NASDAQ so long as Belfort, Porush, or Greene owned more than 4.9%, or 251,728 shares, of SHOO's outstanding stock. On December 2, 1993, the NASD agreed to list SHOO's stock on the NASDAQ on the condition that BOCAP, a shell corporation controlled by Madden, purchase 1,284,815 shares of SHOO stock ("the BOCAP stock") from Belfort, Porush, and Greene in return for BOCAP's promissory note in the amount of \$3,237,737.

32. On December 2, 1993, BOCAP issued a promissory note in the amount of \$3,237,737 to Belfort, Porush, and Greene, and purchased the BOCAP stock from Belfort, Porush, and Greene. However, Madden and Belfort, Porush, and Greene secretly agreed that the BOCAP stock still belonged to Belfort, Porush, and Greene, and that neither BOCAP nor Madden would be obligated to pay off the promissory note.

33. The SHOO prospectus listed BOCAP as the owner of the BOCAP stock. Madden never disclosed to investors, in SHOO's prospectus or elsewhere, the fact that the BOCAP stock still belonged to Belfort, Porush, and Greene, and that neither BOCAP nor Madden would be obligated to repay the promissory note. Because the NASD's listing of SHOO on the NASDAQ was conditioned on Belfort's, Porush's, and Greene's non-

ownership of the BOCAP stock, the fact that the BOCAP transaction was a sham would have been material to investors. Accordingly, the statement in SHOO's prospectus was materially false and misleading.

34. On August 2, 1995, to reassure Belfort that his rights to his share of the BOCAP stock were secure, Madden executed a second, secret promissory note that defined the amount of money that Madden owed Belfort as equal to the market value of Belfort's BOCAP stock.

35. In December 1995, SHOO issued a second prospectus in connection with the offer of common stock and warrants. The December 1995 prospectus falsely represented that Belfort had sold his stock to BOCAP, and failed to disclose the existence of the second promissory note between Belfort and Madden. For reasons described in paragraph 33, the December 1995 prospectus was materially false and misleading.

Herman Recruits Madden to Participate in Monroe IPO Manipulations

36. Monroe began participating in Stratton IPO manipulations in January 1994. As a member of the syndicate, Monroe was given an allotment of Stratton IPO stock to sell to its customers at the IPO price. Rather than sell the stock directly to its customers, Monroe sold the stock to "flippers," who then sold it back to Monroe, at prices slightly above the IPO price, immediately after the commencement of aftermarket trading. Once Stratton had manipulated the stock up to predetermined artificially inflated prices, Monroe resold the flippers' stock to unsuspecting Monroe customers. Although Stratton was the lead underwriter in these IPOs, Monroe's participation in these IPO manipulations are referred to herein as "Monroe IPO manipulations."

37. Because Monroe had recently begun its operations, Herman needed flippers he could trust so that he could execute the Monroe IPO manipulations. Porush recommended that Herman approach Madden, who had been a trustworthy Stratton flipper, to be a Monroe flipper.

38. In January 1994, Herman and Madden met and negotiated the terms of their agreement whereby Madden would participate in the Monroe IPO manipulations as a flipper. Madden was familiar with the way the manipulations worked because he had already participated in several Stratton IPO manipulations as a Stratton flipper. Madden understood his role in the Monroe IPO manipulations, and that the purpose of the Monroe IPO manipulations was to defraud unsuspecting Monroe customers.

Madden's Role in the Monroe IPO Manipulations

39. Madden first participated in a Monroe IPO manipulation by buying 35,050 units of M.H. Meyerson & Co., Inc. on or about January 26, 1994. Between January 1994 and May 1996, Madden acted as a flipper in at least eleven Monroe manipulations. The following trades were made by Madden while acting as a Monroe flipper:

| IPO Stock Name | Date of Purchase | Ut/Sh/Wt Purchased | Purchase Price | Amount of Investment | Date of Sale | Sale Price | Proceeds from Sale | Madden's Profit |
|---|------------------|--------------------|----------------|----------------------|--------------|------------|--------------------|-----------------|
| M.H. Meyerson & Co., Inc. (Units) | 1/19/94 | 10,000 | 4 | \$40,000.00 | 1/19/94 | 6 7/16 | \$64,375.00 | \$24,375.00 |
| | 1/19/94 | 25,050 | 4 | \$100,200.00 | 1/19/94 | 7 5/8 | \$191,006.25 | \$90,806.25 |
| Octagon Inc. (Units) | 2/16/94 | 30,000 | 7 | \$210,000.00 | 2/16/94 | 18 | \$540,000.00 | \$330,000.00 |
| Select Media Communications, Inc. (Units) | 8/25/94 | 60,000 | 7 | \$420,000.00 | 8/25/94 | 11 7/8 | \$712,500.00 | \$292,500.00 |
| Solomon Page Group, Ltd. (Units) | 10/27/94 | 60,000 | 4 | \$240,000.00 | 10/27/94 | 6 19/32 | \$395,625.00 | \$155,625.00 |
| United Leisure Corp. (Units) | 11/17/94 | 60,000 | 4 1/4 | \$255,000.00 | 11/18/94 | 4 1/2 | \$270,000.00 | \$15,000.00 |
| | 11/18/94 | 150,000 | 3 1/2 | \$525,000.00 | 11/18/94 | 3 13/16 | \$571,875.00 | \$46,875.00 |

| | | | | | | | | |
|-------------------------------------|---------|---------|-------|--------------|---------|---------|----------------|--------------|
| Dualstar Technologies Corp. (Units) | 2/14/95 | 61,700 | 7 | \$431,900.00 | 2/14/95 | 12 | \$740,400.00 | \$308,500.00 |
| Czech Industries, Inc. (Units) | 6/16/95 | 102,100 | 7 | \$714,700.00 | 6/16/95 | 12 3/16 | \$1,244,343.75 | \$529,643.75 |
| MVSI, Inc. (Units) | 8/22/95 | 115,200 | 7 | \$806,400.00 | 8/22/95 | 9 | \$1,036,800.00 | \$230,400.00 |
| Hemispherx Biopharma, Inc. (Units) | 11/2/95 | 241,700 | 3 1/2 | \$845,950.00 | 11/2/95 | 6 3/16 | \$1,495,518.75 | \$649,508.75 |
| Sonics & Materials, Inc. (Shares) | 3/1/96 | 61,500 | 5 | \$307,500.00 | 3/1/96 | 6 3/4 | \$415,125.00 | \$107,625.00 |
| (Warrants) | 3/1/96 | 300,000 | 3/20 | \$45,000.00 | 3/1/96 | 3/4 | \$225,000.00 | \$180,000.00 |
| Big City | 5/13/96 | 150,000 | 4 | \$600,000.00 | 5/13/96 | 8 5/8 | \$1,293,750.00 | \$693,750.00 |
| Bagels, Inc. | 5/13/96 | 900 | 4 | \$3,600.00 | 5/13/96 | 13 1/2 | \$12,150.00 | \$8,550.00 |
| (Units) | 5/13/96 | 30,450 | 4 | \$121,800.00 | 5/13/96 | 13 | \$395,850.00 | \$274,050.00 |

40. At the time of the Big City Bagels, Inc. ("BCB") IPO, Madden received 100,000 bridge units in return for making a bridge loan to BCB. As part of this transaction, Madden's bridge units were subject to a lock-up restriction which prevented Madden from selling his shares in the aftermarket for thirteen months without Monroe's consent. This lock-up restriction was described in BCB's prospectus. In fact, contrary to the prospectus, Herman and Madden had a secret agreement to release Madden from the lock-up restriction as soon as trading commenced in the aftermarket. Pursuant to this secret agreement, Madden consented to sell the 100,000 bridge units back to Monroe at a price below the IPO offering price. Madden sold his 100,000 BCB bridge units back to Monroe for \$2.00 per unit, or \$200,00, on or about May 13, 1996. By selling his bridge units back to Monroe as soon as trading commenced in the aftermarket, Madden enabled Monroe to earn illegal profits through its subsequent sale of the 100,000 BCB units to unsuspecting Monroe customers after Monroe had manipulated the units up to an artificially inflated price.

CLAIM FOR RELIEF

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

41. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 40 above.

42. From May 1991 through March 1997, Madden, directly or indirectly, singly or in concert, by use of the means or instruments of transportation or communication in, or the means or instrumentalities of, interstate commerce, or of the mails, in the offer or sale and in connection with the purchase or sale of securities, knowingly or recklessly, has: (1) employed devices, schemes, and artifices to defraud; (2) obtained money or property by means of, or otherwise made, untrue statements of material fact, or has omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (3) engaged in acts, transactions, practices, and courses of business which have operated as a fraud or deceit upon purchasers of securities and other persons.

43. Madden knowingly or recklessly made the misleading statements and omissions, and engaged in the deceptive conduct described in paragraphs 1 through 40 above, and Madden knew, or was reckless in not knowing, that the representations were false and misleading. Specifically, Madden played a crucial role in the fraudulent manipulation of at least twenty-two Stratton and Monroe IPOs between May 1991 and March 1997. Madden did so by acting as a flipper, purchasing IPO stock, and then quickly selling it back to Stratton or Monroe, thereby hiding the fact that Stratton or Monroe

retained control over almost all of the outstanding shares for each issue they brought public. Madden also participated in the Stratton and Monroe manipulations by selling bridge units, which investors were led to believe would not be sold for at least thirteen months, back to Stratton or Monroe as soon as trading in the aftermarket commenced.

44. In addition, Madden knowingly or recklessly made material misleading statements and omissions in connection with the sale of SHOO securities. Madden never disclosed to investors, in SHOO's prospectus or elsewhere, that the SHOO IPO was to be a fraudulent manipulation in which Stratton would control the float of SHOO's stock. The SHOO prospectus failed to disclose that Stratton would and did earn substantial profits by selling to Stratton customers the SHOO shares it had purchased from its flippers and bridge lenders. Finally, the SHOO prospectus falsely stated that BOCAP was the true owner of 1,284,815 shares of SHOO stock. Madden never disclosed to investors, in SHOO's prospectus or elsewhere, that the stock still belonged to Belfort, Porush, and Greene.

45. The misrepresentations and omissions described in paragraphs 1 through 40, above, were material.

46. By reason of the foregoing, Madden has, directly or indirectly, singly or in concert, violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Rule 10b-5.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff respectfully requests that this Court:

I.

Find that Madden committed the violations alleged herein.

II.

Enter a Final Judgment permanently enjoining Madden and his agents, servants, employees, attorneys-in-fact, and all persons in active concert or participation with him who received actual notice of the Final Judgment by personal service or otherwise, and each of them, from violating, directly or indirectly, Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder.

III.

Enter an order, pursuant to Sections 20(e) of the Securities Act and 21(d)(2) of the Exchange Act, barring Madden from serving as an officer and director of a public company.

IV.

Enter a Final Judgment directing Madden to disgorge the unjust enrichment he obtained as a result of the violations alleged herein, plus prejudgment interest.

V.

Enter a Final Judgment, pursuant to Section 20(d) of the Securities Act and Section 21(d) of the Exchange Act, assessing and directing payment of penalties against Madden.

VI.

Grant such other and further relief as the Court may deem just and equitable.

Dated: New York, New York
June 20, 2000

Respectfully Submitted,

Edwin H. Nordlinger

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