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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

STERLING FOSTER & COMPANY, INC.
ADAM LIEBERMAN, CRAIG KELLERMAN,
FRANK MONROIG, AND DENNIS RUEB,

Defendants.

97 CIV. 1077

COMPLAINT

FILED
U.S. DISTRICT COURT
FEB 11 1997
S.D. OF N.Y.

Plaintiff Securities and Exchange Commission ("Commission"), for its Complaint against defendants Sterling Foster & Company, Inc. ("Sterling Foster"), Adam Lieberman ("Lieberman"), Craig Kellerman ("Kellerman"), Frank Monroig ("Monroig"), and Dennis Rueb ("Rueb") (collectively, the "Defendants"), alleges as follows:

1. Between October 1994 and the present, Sterling Foster, Lieberman and Kellerman have defrauded the investing public of at least \$75 million by manipulating the price of six public companies' securities: Lasergate Systems Inc. ("Lasergate"), Advanced Voice Technologies, Inc. ("Advanced Voice"), Com/Tech Communication Technologies, Inc.

("ComTech"), Embryo Development Corp. ("Embryo"), Applewoods, Inc. ("Applewoods"), and ML Direct, Inc. ("ML Direct") (collectively, the "Securities") and selling these securities at artificially inflated prices to investors. Lieberman and Monroig, directly and indirectly, trained Sterling Foster registered representatives to induce investors to purchase these securities by using a series of "boiler-room" sales practices, including misrepresenting to customers that: (1) Sterling Foster had "inside information" about the issuers of these securities that was going to be publicly announced soon; (2) the prices of these securities would reach certain targets within a few days; (3) Sterling Foster registered representatives were not earning any compensation on these customer purchases; and (4) Sterling Foster was out of prospectuses relating to these securities. Sterling Foster, Lieberman and Kellerman charged Sterling Foster customers undisclosed excessive markups of at least \$75 million on their purchases of these securities. Once they had duped investors into purchasing these securities at artificially inflated prices, Sterling Foster, Lieberman, Monroig and Rueb prevented Sterling Foster customers from selling them. When his customers asked about the status of their sell orders, Rueb misrepresented to his customers that he had executed their orders to sell Lasergate and Advanced Voice stocks when, in fact, he had not done so.

2. Sterling Foster and Lieberman, directly or indirectly, singly or in concert, have engaged, are continuing to engage, and are about to engage in, transactions, acts, practices, and courses of business that constitute, and would constitute, violations of Section 17(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. § 77q(a), and Sections

10(b) and 15(c)(1) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§ 78j(b), and 78o(c)(1), and Rules 10b-3, 10b-5, 10b-6, 15c1-2, and 15c1-8, 17 C.F.R. §§ 240.10b-3, .10b-5, .10b-6, .15c1-2, and .15c1-8.

3. Kellerman, directly or indirectly, singly or in concert, has engaged, is continuing to engage, and is about to engage in, transactions, acts, practices, and courses of business that constitute, and would constitute, violations 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 Rules 10b-5 and 10b-6, 17 C.F.R. §§ 240.10b-5 and .10b-6.

4. Monroig and Rueb, directly or indirectly, singly or in concert, have engaged, are continuing to engage, and are about to engage in, transactions, acts, practices, and courses of business that constitute, and would constitute, violations 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.

5. Unless Defendants are restrained and enjoined, they will continue to engage in the transactions, acts, practices, and courses of business set forth in this Complaint and in transactions, acts, practices, and courses of business of similar type 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 restrain and enjoin, temporarily, preliminarily and

permanently, Sterling Foster, Lieberman, Kellerman and Monroig from future violations of the federal securities laws and permanently to enjoin Rueb from future such violations. The Commission also seeks the appointment of a Special Compliance Monitor to monitor Sterling Foster's compliance with any injunction issued by the court, disgorgement by the Defendants of their ill-gotten gains plus prejudgment interest, and such other equitable relief as may be deemed appropriate. In addition, the Commission seeks civil penalties from each of the Defendants pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d).

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) and 27 of the Exchange Act, 15 U.S.C. §§ 78u(d) and 78aa.

8. The Commission, pursuant to authority conferred upon it by Sections 10(b), 15(c)(1) and 23(a) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78o(c)(1), and 78w(a), has promulgated Rules 10b-3, 10b-5, 10b-6, 15c1-2, and 15c1-8, 17 C.F.R. §§ 240.10b-3, .10b-5, .10b-6, .15c1-2, and .15c1-8. Rules 10b-3, 10b-5, 15c1-2, and 15c1-8 were in effect at the time of the transactions and events alleged in this Complaint and remain in effect. Rule 10b-6 was in effect at the time of the transactions and events alleged in this Complaint and remains in effect until March 4, 1997 when it shall be superseded by Regulation M, 17 C.F.R. § 242. All of the conduct herein which is alleged to be violative of Rule 10b-6 would also constitute a violation of Regulation M.

9. The Defendants, directly or indirectly, singly or in concert, made use of the means or instruments of transportation and 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 Southern District of New York, including, but not limited to, negotiating and preparing documents for public offerings, soliciting customers to purchase securities, and negotiating private securities transactions.

DEFENDANTS

10. Sterling Foster & Co., is a registered broker-dealer based in Melville, New York, which has been in operation since June 1994.

11. Adam Lieberman, age 30, of Roslyn Heights, New York, is the founder, president, and sole shareholder of Sterling Foster. Lieberman is the ultimate supervisory authority at Sterling Foster.

12. Craig Kellerman, age 35, of Nesconset, New York, has been Sterling Foster's head trader since June 1994. Kellerman is responsible for all trading and market making activities at the firm.

13. Frank Monroig, age 35, of Nissequogue, New York, has been associated with Sterling Foster since June 1994 and became its sales manager in January 1995. Monroig reports directly to Lieberman and supervises Sterling Foster's assistant branch managers, who in turn supervise teams of ten to twenty Sterling Foster registered representatives.

14. Dennis Rueb, age 24, of Seaford, New York, has been associated with Sterling Foster since 1994 as a registered representative.

THE ISSUERS OF THE SECURITIES

15. Lasergate is a Florida corporation based in Clearwater, Florida. According to documents filed with the Commission, the company, which began operations in 1985, sells admission systems for amusement parks, theme parks and other public facilities. Lasergate made an initial public offering of its stock in July 1987 at \$1.00 per share. Active trading in Lasergate common stock ceased on or about August 6, 1990, at which time the common stock was priced at approximately \$3/32 per share. The company has operated at a loss since its inception in 1985 and as of June 30, 1994, Lasergate had incurred a cumulative loss of \$5.7 million. Lasergate securities are approved for trading on the National Association of Securities Dealers Automated Quotation System ("NASDAQ") Small Capitalization ("Small Cap") Market.

16. Advanced Voice is located at 369 Lexington Avenue, New York, New York. According to documents filed with the Commission, Advanced Voice has one product, a voice-mail system designed to allow teachers and school administrators to have daily telephone contact with students and parents. Advanced Voice incurred net losses of \$181,933 for the fiscal year ended December 31, 1993 and \$4,478,367 for the nine month period ending September 30, 1994. Advanced Voice securities are approved for trading on the NASDAQ Small Cap Market.

17. ComTech was incorporated in New York on July 19, 1982, and has offices located at 770 Lexington Avenue, New York, New York. According to documents filed with the Commission, ComTech develops interactive video programs and video teleconferencing systems for delivery through private satellite networks. For the fiscal year ended June 30, 1994 and June 30, 1995, ComTech incurred a net loss of \$24,107 and \$921,969 respectively. ComTech common stock is approved for trading on the NASDAQ Small Cap Market.

18. Embryo was incorporated in Delaware on March 3, 1995 and is located at 305 Broadway, New York, New York. According to documents filed with the Commission, the company develops, acquires, manufactures, and markets various bio-medical devices. From its inception through July 31, 1995, Embryo had cumulative losses of \$816,989. Embryo common stock is approved for trading on the NASDAQ Small Cap Market.

19. Applewoods was incorporated in Delaware and is located at 110 East 59th Street, New York, New York. According to documents filed with the Commission, the company sells natural soaps, oils, lotions, and other toiletries through licensed retail stores and distributors. For the fiscal years ended June 30, 1994 and June 30, 1995, Applewoods incurred losses of \$673,291 and \$288,518, respectively. Applewoods common stock is approved for trading on the NASDAQ Small Cap Market.

20. ML Direct was incorporated in Delaware on June 22, 1995 and is located at 300 Park Avenue, New York, New York. According to documents filed with the

Commission, the company intends to establish display programs in retail outlets for infomercials and shopping networks. From inception through May 31, 1996 the company incurred losses of \$794,035. ML Direct common stock and warrants are approved for trading on the NASDAQ Small Cap Market.

FACTS

Background: Sterling Foster's Boiler Room Sales Practices

21. Lieberman controls Sterling Foster, which operates out of an office located in Melville, Long Island. Monroig, Kellerman, and Sterling Foster's compliance officer all report directly to Lieberman.

22. Sterling Foster employs approximately 275 registered representatives and sales trainees - all of whom sit in one big room equipped with desks and telephones. Sterling Foster generates reports as to the number of calls placed by each registered representative each day and management reprimands those registered representatives who fail to make hundreds of calls a day to prospective customers.

23. Most registered representatives hired at Sterling Foster have no prior experience in the securities industry. Lieberman and Monroig, directly and indirectly, train Sterling Foster registered representatives to use a variety of deceptive sales practices in order to induce customer purchases of securities being underwritten by Sterling Foster ("house stocks"). For example, in written scripts and in oral presentations at sales meetings, Lieberman and Monroig, directly and indirectly, provide Sterling Foster registered

representatives with materially false and misleading information for use in offering and selling house stocks. Among the types of materially false and misleading representations that Sterling Foster registered representatives routinely used to solicit customer purchases of securities are the following: (1) the registered representatives have "inside information" about these stocks; (2) a particular house stock is "oversubscribed" because there is so much buying interest; (3) large institutions are about to buy large blocks of the stock; (4) the stock is going to reach a target price within a matter of days; or (5) that the customer was buying securities from an initial public offering.

24. Sterling Foster's compensation system encourages Sterling Foster registered representatives to sell house stocks only. Sterling Foster registered representatives are paid commissions only on customer purchases of house stocks. Moreover, unbeknownst to Sterling Foster's customers, the per share compensation paid to Sterling Foster registered representatives was extraordinarily high, as much as \$2 per share. To keep these commissions, Sterling Foster registered representatives are required by Lieberman and Monroig to prevent their customers from selling such securities for at least 30 days. Consequently, Sterling Foster registered representatives have a direct financial incentive to increase the demand for, and restrict the supply of, house stocks.

25. When Sterling Foster customers called to place sell orders, Sterling Foster registered representatives, at the direction of Lieberman and Monroig routinely: (1) discouraged them from selling; (2) refused to accept the sell order; and/or (3) told the

customer that the stock was "restricted" because of pending news and could not be sold.

26. When Sterling Foster registered representatives could not dissuade their customers from selling their positions in house stocks, Sterling Foster registered representatives, with Lieberman and Monroig's knowledge and approval, delayed the execution of the sale of the stock for days, weeks or longer by failing to execute the sell order or by misrepresenting to the customer that the stock had been sold.

27. Lieberman and Monroig, directly and indirectly, trained Sterling Foster registered representatives to avoid answering calls from customers calling to complain about their inability to sell their stock and to have other Sterling Foster registered representatives take these customers' calls and pretend to be managers.

Overview of The Manipulative Scheme

28. Sterling Foster underwrote the secondary public offering of units of Lasergate, and the initial public offerings of units of Advanced Voice and common stock of ComTech, Embryo, and Applewoods (collectively, the "Offerings"). Immediately after each of the distributions of securities in the Offerings was completed, aftermarket trading in the offered securities began on NASDAQ. Sterling Foster made, and continues to make, a market in these securities, as well as in the securities of ML Direct. During the same period, Sterling Foster, through Kellerman, placed quotations for these securities on the NASDAQ system.

29. The manipulation of each of the Offerings followed a similar pattern. First, Sterling Foster, Lieberman and Kellerman distributed to favored customers the securities

issued in the Offerings. Then, they immediately gained control of the float of offered securities by repurchasing a large portion of those securities from these customers at a premium over the offering price. Next, Sterling Foster, Lieberman and Monroig, and Sterling Foster employees used "boiler-room" sales practices -- including pre-offering solicitations, unauthorized trades, and misrepresentations -- to sell the securities that they were manipulating to its other customers at inflated prices. In fact, with the exception of the Applewoods offering, Sterling Foster sold almost twice as much stock in the immediate aftermarket as had been issued in the public offerings, giving Sterling Foster a short position in the stock greater than 100 percent of the public float.

30. Sterling Foster covered these enormous short positions by privately purchasing stock from insiders of the issuers. Sterling Foster bought these securities at prices substantially lower than the inflated price that they were contemporaneously misrepresenting to investors was a fair market price. By covering these short positions in this manner, Sterling Foster and Lieberman made tens of millions of dollars in illegal profits. Using similar techniques, Sterling Foster, Lieberman and Kellerman also manipulated securities of ML Direct, an offering that Sterling Foster did not underwrite. Finally, Sterling Foster, Lieberman, and Monroig, to forestall rapid declines in the price of the manipulated securities, directed its sales force to refuse to allow customers to sell those securities.

31. As more particularly described in Paragraphs 38 through 173 below, Sterling Foster, Lieberman and Kellerman, for the purpose of inducing purchases of the Securities,

manipulated upward the market prices for the Securities during the weeks following their respective public offerings, and improperly maintained and supported these artificially high prices by increasing demand for, and reducing supply of, those securities.

32. Sterling Foster, Lieberman, Kellerman and Monroig created artificial demand for the Securities by conducting aggressive sales campaigns -- including the making of material misrepresentations to customers to induce purchases -- to promote the Securities. Moreover, Sterling Foster registered representatives, under the instruction and supervision of Lieberman and Monroig, impermissibly created built-in demand for the common shares upon the opening of the market for that security by: unlawfully soliciting aftermarket orders for common stock during Sterling Foster's participation in the distributions of the Securities; and requiring that, in order to purchase securities from the public offerings, the customers also agree to purchase common stock in the immediate aftermarket.

33. Sterling Foster, Lieberman and Kellerman also created artificial demand by repurchasing significant percentages of each Securities offering in the immediate aftermarket.

34. As a result of Sterling Foster's massive selling efforts to its customers and repurchases of the offered Securities in the aftermarket, Sterling Foster dominated and controlled the market for the Securities in the weeks following the Offerings. In particular, on the first day of aftermarket trading in each offering, with the exception of the Applewoods Offering, Sterling Foster sold to its customers approximately 200 percent of the public float of each of the offered Securities -- thereby generating short positions in the Securities equal

in size to the public float for the Securities.

35. Sterling Foster, Lieberman and Monroig restricted the supply of the Securities by discouraging and delaying the execution of sell orders.

36. With the exception of Applewoods, Sterling Foster, through Lieberman, covered the enormous short positions accumulated in each of the offered Securities by arranging to purchase privately stock from officers and affiliates of the issuers of the Securities at prices substantially below the market, thereby charging undisclosed excessive markups of at least \$75 million to the customers who purchased the Securities.

37. After Sterling Foster covered its short position in each of the Securities, the prices of the Securities began to drift downward. Sterling Foster, through its registered representatives and Lieberman, stalled these price declines by continuing to refuse, or delay execution of, customer sell orders and by continuing to induce, through material misrepresentations, its customers to purchase the Securities.

Manipulation of Lasergate Common Stock

38. After the close of trading on October 17, 1994, a registration statement for a secondary public offering of Lasergate securities ("Lasergate Offering"), underwritten by Sterling Foster, became effective. The Lasergate Offering consisted of 800,000 units priced at \$5.50 per unit. Each Lasergate unit was comprised of one share of common stock and two warrants to purchase common stock at \$5.50 per share. The warrants were exercisable beginning one year after the effective date of the Lasergate Offering.

39. Sterling Foster exercised an over-allotment option granted to it by Lasergate for an additional 120,000 units, bringing the total distribution in the Lasergate Offering to 920,000 units.

40. In addition to the 920,000 units comprising the Lasergate Offering, Lasergate simultaneously registered, pursuant to Rule 415 under the Securities Act, 17 C.F.R. § 230.415, a separate "shelf" offering of 1,734,895 shares of common stock owned by various people or entities ("Lasergate Selling Shareholders").

41. According to the Lasergate prospectus, the Lasergate Selling Shareholders had an agreement with Lasergate pursuant to which the Selling Shareholders agreed not to sell their shares for a period of eighteen months from the effective date of the offering, unless they received Sterling Foster's prior written consent ("Lasergate lock-up agreement"). The prospectus for the Lasergate Offering also represented that, "the Underwriters and the Selling Shareholders have no arrangements or understandings with respect to a release by the Underwriter of any Selling Shareholders from this 18 month commitment."

42. Sterling Foster received \$151,800 in underwriting fees in connection with the Lasergate Offering.

43. Sterling Foster allocated itself 671,750 units, or 73 percent of the Lasergate Offering, which it distributed to its customers on October 18, 1994. Sterling Foster allocated the remaining 248,250 units to other broker-dealers in the selling syndicate ("Lasergate Selling Syndicate").

Manipulation of the Aftermarket for Lasergate Securities

44. Sterling Foster dominated and controlled the aftermarket for Lasergate securities between October 18 and at least November 4, 1994, by repurchasing Lasergate units in the immediate aftermarket and by selling more than 100 percent of the public float of Lasergate common stock with its customers.

45. Aftermarket trading in Lasergate units began at approximately 2:43 p.m. on October 18, 1994. By 2:51 p.m., Kellerman had repurchased approximately 446,100 Lasergate units, or 48 percent of the Lasergate Offering, for Sterling Foster's proprietary account at prices of \$6 to \$9.60 per unit. Sterling Foster and Lieberman, directly and through Sterling Foster registered representatives, had arranged these unit repurchases prior to the commencement of aftermarket trading in Lasergate units.

46. After completing the unit repurchases referred to in Paragraph 45, Sterling Foster held approximately 445,000 Lasergate units in its proprietary account and 470,150 Lasergate units in its customer accounts. Thus, within ten minutes of the start of aftermarket trading, Sterling Foster controlled approximately 99 percent of the Lasergate units offered.

47. Shortly thereafter, Kellerman split the 446,100 units in Sterling Foster's proprietary account into their warrant and common stock components.

48. On October 19, 1994, Sterling Foster's proprietary account sold approximately 1.8 million shares of Lasergate common stock to Sterling Foster customers at prices ranging from \$7 3/4 to \$10 5/8 per share.

49. At Lieberman's instruction, Sterling Foster registered representatives created artificial demand for Lasergate securities by: preselling Lasergate common stock prior to the Lasergate Offering becoming effective; executing unauthorized purchases of Lasergate common stock for customer accounts; and making material misrepresentations to Lasergate customers to induce their purchases of Lasergate common stock.

50. Between October 18 and at least February 1995, Sterling Foster, Lieberman and Monroig, through Sterling Foster registered representatives, restricted the public float of Lasergate stock by refusing to execute customer sell orders, as detailed in Paragraphs 24 to 27 above.

51. Sterling Foster exhibited price leadership in Lasergate common stock between October 18 and at least October 28, 1994. During that period, Sterling Foster, through Kellerman, entered the high bid, either exclusively or shared, for Lasergate common stock 80 percent of the time. Between October 18 and October 21, 1994, Sterling Foster accounted for 77.45 percent of the trading volume in Lasergate common stock.

52. Between October 18 and October 19, 1994, the price of Lasergate common stock increased to \$10 7/8 per share. There were no news stories or corporate developments relating to Lasergate during this period to account for these price increases.

53. The price of Lasergate common stock peaked at \$14 7/8 per share on November 4, 1994 and then began to drift slowly downward. Sterling Foster slowed this price decline by continuing to delay, or refuse, the execution of customer sell orders for

Lasergate stock and by continuing to make misrepresentations to Sterling Foster customers to induce purchases of Lasergate common stock.

54. As of February 11, 1997, the closing price for Lasergate common stock was \$5/8 per share.

Misrepresentations in the Offer and Sale of Lasergate Securities

55. In addition to the material misrepresentations and omissions alleged in Paragraph 23 above, Sterling Foster registered representatives induced customer purchases of Lasergate common stock in the aftermarket by misrepresenting to customers that: (1) the registered representative was not making any money on these purchases; and (2) that Lasergate was about to sign a deal with "Disney".

56. These representations were materially false because: (1) Sterling Foster registered representatives were compensated \$1.25 for each share of Lasergate common stock sold in the aftermarket; and (2) no deal between Walt Disney & Co. and Lasergate was ever announced.

Excessive Undisclosed Markups on Lasergate Securities

57. As a result of Sterling Foster's retail sales effort, on October 19, 1994, Sterling Foster had a short position in Lasergate common stock of approximately 1.2 million shares.

58. To cover a portion of its short position, on or about October 21, 1994, Sterling Foster, through Lieberman, released the Lasergate Selling Shareholders from the

Lasergate lock-up agreement and Lieberman arranged for Sterling Foster to purchase approximately 800,000 shares of Lasergate common stock directly from the Lasergate Selling Shareholders for \$3 per share. Lieberman subsequently arranged for Sterling Foster to purchase an additional 389,230 shares directly from Selling Shareholders between December 1994 and January 1995, also for \$3 per share.

59. Sterling Foster charged markups of approximately \$6 per share, totaling approximately \$7 million, to its customers who purchased Lasergate common stock on October 19, 1994.

60. These markups were not disclosed to Sterling Foster customers who purchased Lasergate common stock on October 19, 1994.

Manipulation of Advanced Voice Common Stock

61. After the close of trading on February 6, 1995, a registration statement for an initial public offering of Advanced Voice securities ("Advanced Voice Offering"), underwritten by Sterling Foster, became effective. The Advanced Voice Offering consisted of one million units, each consisting of one share of common stock and one warrants to purchase common stock, at \$5.50 per unit. The warrants were exercisable beginning two years after the effective date of the Advanced Voice offering.

62. Sterling Foster exercised an over-allotment option granted to it by Advanced Voice for an additional 150,000 units, bringing the total distribution in the Advanced Voice Offering to 1,150,000 units.

63. In addition to the 1.15 million units comprising the Advanced Voice Offering, Advanced Voice simultaneously registered, pursuant to Rule 415 under the Securities Act, 17 C.F.R. § 230.415, a separate "shelf" offering of 1,519,756 shares of common stock owned by approximately 23 people and entities ("Advanced Voice Selling Shareholders").

64. According to the Advanced Voice Offering prospectus, the Advanced Voice Selling Shareholders had an agreement with Advanced Voice pursuant to which the Selling Shareholders agreed not to sell their shares for a period of thirteen to twenty-four months from the effective date of the offering, unless they received Sterling Foster's prior written consent ("Advanced Voice lock-up agreement").

65. Sterling Foster received \$189,750 in underwriting fees in connection with the Advanced Voice Offering.

66. Sterling Foster allocated itself 848,500 units, or 74 percent of the Advanced Voice Offering, which it distributed to Sterling Foster customers on February 7, 1995. Sterling Foster allocated the remaining 301,500 units to other broker-dealers in the selling syndicate ("Advanced Voice Selling Syndicate")

Manipulation of the Aftermarket for Advanced Voice Securities.

67. Sterling Foster dominated and controlled the aftermarket for Advanced Voice securities between February 7 and at least February 10, 1995 by repurchasing Advanced Voice units in the immediate aftermarket and by selling more than 100 percent of the public float of Advanced Voice common stock with its customers.

68. Aftermarket trading in Advanced Voice units began at approximately 12:00 noon on February 7, 1995.

69. At 12:03 p.m., Sterling Foster arranged to repurchase approximately 200,000 Advanced Voice units at \$13.00 per unit from the Advanced Voice Selling Syndicate for Sterling Foster's proprietary account. Shortly thereafter, Kellerman repurchased 275,500 units for Sterling Foster's proprietary account from its own customers for \$12 7/8. Sterling Foster and Lieberman, directly and through Sterling Foster registered representatives, had arranged these repurchases prior to the commencement of aftermarket trading in Advanced Voice units.

70. After completing the unit repurchases referred to in Paragraph 70, Sterling Foster held approximately 475,500 Advanced Voice units in its proprietary account and 573,000 Advanced Voice units in its customer accounts. Thus, within minutes of the start of aftermarket trading on February 7, 1995, Sterling Foster controlled approximately 91 percent of the Advanced Voice unit offering.

71. Shortly thereafter, Kellerman split the units in Sterling Foster's proprietary accounts into their common stock and warrant components.

72. On February 7, 1995, Sterling Foster retailed approximately 2.3 million shares of Advanced Voice common stock to its customers at prices ranging from \$12.25 to \$12.75 per share.

73. At Lieberman's instruction, Sterling Foster registered representatives created

artificial demand for Advanced Voice securities by: preselling Advanced Voice common stock prior to the Advanced Voice Offering becoming effective; executing unauthorized purchases of Advanced Voice common stock for customer accounts; and making material misrepresentations to Advanced Voice customers to induce their purchases of Advanced Voice common stock.

74. In the weeks after the Advanced Voice Offering, Sterling Foster, Lieberman and Monroig, through Sterling Foster registered representatives, restricted the public float of Advanced Voice stock by refusing to execute customer sell orders, as detailed in Paragraphs 24 to 27 above.

75. Sterling Foster exhibited price leadership in Advanced Voice common stock between February 7 and at least February 21, 1995. During that period, Sterling Foster, through Kellerman, entered the high bid, either exclusively or shared, for Advanced Voice common stock 91.85 percent of the time. Between February 7 and at least February 10, 1997, Sterling Foster accounted for 87.55 percent of the trading volume in Advanced Voice common stock.

76. On February 7, 1997, the price of Advanced Voice common stock increased to \$15 5/8 per share. There were no news stories or corporate developments relating to Advanced Voice during this period to account for this increase.

77. The price of Advanced Voice common stock peaked at \$14 1/4 per share on February 7, 1995 and then began to drift slowly downward. Sterling Foster slowed this

price decline by continuing to delay, or refuse, the execution of customer sell orders for Advanced Voice stock and by continuing to make misrepresentations to Sterling Foster customers to induce purchases of Advanced Voice common stock.

78. As of February 11, 1997, the closing price for Advanced Voice common stock was \$3 1/4 per share.

Misrepresentations in the Offer and Sale of Advanced Voice Securities

79. In addition to the material misrepresentations and omissions alleged in Paragraph 23 above, Sterling Foster registered representatives induced customer purchases of Advanced Voice common stock in the aftermarket by misrepresenting to customers that the registered representative was not earning any compensation on these purchases.

80. This representation was materially false because Sterling Foster registered representatives were compensated \$1.75 for each share of Advanced Voice common stock sold in the aftermarket.

Excessive Undisclosed Markups on Advanced Voice Securities

81. As a result of Sterling Foster's retail sales effort, on February 8, 1995, Sterling Foster had a short position in Advanced Voice common stock of approximately 1.9 million shares.

82. To cover its short position, between February 13 and March 1, 1995, Sterling Foster, through Lieberman, released the Advanced Voice Selling Shareholders from the Advanced Voice lock-up agreement and Lieberman arranged for Sterling Foster to purchase

directly from the Advanced Voice Selling Shareholders 495,000 shares at \$2.91 per share and 1,024,756 Advanced Voice shares at \$2.00 per share.

83. Sterling Foster charged markups of at least \$9.50 per share, totaling approximately \$14 million, to its customers who purchased Advanced Voice common stock on February 7, 1995.

84. These markups were not disclosed to Sterling Foster customers who purchased Advanced Voice common stock on February 7, 1995.

Manipulation of ComTech Common Stock

85. After the close of trading on August 23, 1995, a registration statement for an initial public offering of ComTech common stock ("ComTech Offering"), underwritten by Sterling Foster, became effective. The ComTech Offering consisted of one million shares of common stock at \$5.00 per share.

86. Sterling Foster exercised an over-allotment option granted to it by ComTech for an additional 150,000 shares, bringing the total distribution in the ComTech Offering to 1,150,000 shares.

87. In addition to the 1.15 million shares comprising the ComTech Offering, ComTech simultaneously registered, pursuant to Rule 415 under the Securities Act, 17 C.F.R. § 230.415, a separate "shelf" offering consisting of 1,760,000 shares of common stock owned by approximately 13 people and entities ("ComTech Selling Shareholders").

88. According to the ComTech Offering prospectus, the ComTech Selling

Shareholders had an agreement with ComTech pursuant to which the Selling Shareholders agreed not to sell their shares for a period of thirteen to twenty-four months from the effective date of the offering, unless they received Sterling Foster's prior written consent ("ComTech lock-up agreement").

89. Sterling Foster received underwriting fees of \$172,500 in connection with the ComTech Offering.

90. Sterling Foster allocated itself 874,550, or 76 percent, of the ComTech Offering, which it distributed to its retail customers on August 24, 1995. Sterling Foster allocated the remaining 275,450 shares to the other broker-dealers in the selling syndicate.

Manipulation of the Aftermarket for ComTech Common Stock

91. Sterling Foster dominated and controlled the aftermarket for ComTech common stock between August 24 and at least September 8, 1995, by repurchasing ComTech common stock in the immediate aftermarket and by selling more than 100 percent of the public float of ComTech common stock with its customers.

92. Aftermarket trading in ComTech common stock began at approximately 11:30 a.m. on August 24, 1995.

93. On August 24, 1995, Sterling Foster repurchased 506,250 shares of ComTech stock in the aftermarket at \$ 9 1/16 to \$10 1/2 per share. Sterling Foster and Lieberman, directly and through Sterling Foster registered representatives, had arranged these repurchases prior to the commencement of aftermarket trading in ComTech common stock.

94. On August 24, 1995, Sterling Foster sold approximately 2.4 million shares of ComTech common stock from its proprietary account to customers at prices ranging from \$9 1/2 to \$9 3/4 per share.

95. At Lieberman's instruction, Sterling Foster registered representatives created artificial demand for ComTech common stock by: preselling ComTech common stock prior to the ComTech Offering becoming effective; executing unauthorized purchases of ComTech common stock for customer accounts; and making material misrepresentations to ComTech customers to induce their purchases of ComTech common stock.

96. In the weeks after the ComTech Offering, Sterling Foster, Lieberman and Monroig, through Sterling Foster registered representatives, restricted the public float of ComTech stock by refusing to execute customer sell orders, as detailed in Paragraphs 24 to 27 above.

97. Sterling Foster exhibited price leadership in ComTech common stock between August 24 and at least September 7, 1995. During that period, Sterling Foster, through Kellerman, entered the high bid, either exclusively or shared, for ComTech common stock 82.95 percent of the time. Sterling Foster trades accounted for 93.58 percent of the trading volume in ComTech common stock on August 24, 1995.

98. On August 24, 1995, the price of ComTech common stock increased to \$10 1/2 per share. There were no news stories or corporate developments relating to ComTech during this period to account for these price increases.

99. The price of ComTech common stock peaked at \$11 per share on September 11, 1995 and then began to drift slowly downward. Sterling Foster slowed this price decline by continuing to delay, or refuse, the execution of customer sell orders for ComTech stock and by continuing to make misrepresentations to Sterling Foster customers to induce purchases of ComTech common stock.

100. As of February 11, 1997, the closing price for ComTech common stock was \$1 1/32 per share.

Misrepresentations in the Offer and Sale of ComTech Stock

101. In addition to the material misrepresentations and omissions alleged in Paragraph 23 above, Sterling Foster registered representatives induced customer purchases of ComTech common stock in the aftermarket by misrepresenting to customers that the registered representative was not making any money on these purchases.

102. This representation was materially false because Sterling Foster registered representatives were compensated \$1.25 for each share of Comtech common stock sold in the aftermarket.

Excessive Undisclosed Markups on ComTech Stock

103. As a result of Sterling Foster's retail sales effort, on August 24, 1995, Sterling Foster had a short position in ComTech common stock of approximately 1.9 million shares.

104. To cover this short position, on August 29, 1995, Sterling Foster released the ComTech Selling Shareholders from the ComTech lock-up agreement and Lieberman

arranged for Sterling Foster to purchase approximately 1.7 million shares of ComTech stock directly from the ComTech Selling Shareholders at \$1.50 per share.

105. Sterling Foster charged markups of approximately \$8 per share, totaling approximately \$14 million, to its customers who purchased ComTech common stock on August 24, 1995.

106. These markups were not disclosed to Sterling Foster customers who purchased ComTech common stock on August 24, 1995.

Manipulation of Embryo Common Stock

107. At 9:00 a.m. on November 17, 1995, a registration statement for an initial public offering of Embryo common stock ("Embryo Offering") underwritten by Sterling Foster, became effective. The Embryo Offering consisted of one million shares of common stock, at \$5.00 per share.

108. Sterling Foster exercised an over-allotment option granted to it by Embryo for an additional 150,000 shares, bringing the total distribution in the Embryo Offering to 1,150,000 shares.

109. In addition to the 1.15 million shares comprising the Embryo Offering, Embryo simultaneously registered, pursuant to Rule 415 under the Securities Act, 17 C.F.R. § 230.415, a separate "shelf" offering consisting of 3,030,000 shares of common stock owned by approximately 11 people and entities ("Embryo Selling Shareholders").

110. According to the Embryo Offering prospectus, the Embryo Selling

Shareholders had an agreement with Embryo pursuant to which the Selling Shareholders agreed not to sell their shares for a period of thirteen to twenty-four months from the effective date of the offering, unless they received Sterling Foster's prior written consent ("Embryo lock-up agreement").

111. The Embryo registration statement stated that "The Underwriter [Sterling-Foster] has no agreements or understandings with any of the Selling Securityholders with respect to release of the securities prior to the 13 month or 24 month period, and has no present intention of releasing any or all of such securities prior to such periods. In recent offerings however, the Underwriter has released Selling Securityholders substantially prior to the expiration of such periods."

112. Sterling Foster received \$172,500 in underwriting fees in connection with the Embryo Offering.

113. Sterling Foster allocated itself 858,150 shares, or 75 percent of the Embryo Offering, which it distributed to its customers on November 17, 1995. Sterling Foster allocated the remaining 291,850 shares to the other broker-dealers in the selling syndicate.

Manipulation of the Aftermarket for Embryo Common Stock

114. Sterling Foster dominated and controlled the aftermarket for Embryo common stock between November 17 and at least December 1, 1995, by repurchasing Embryo common stock in the immediate aftermarket and by selling more than 100 percent of the public float of Embryo common stock with its customers.

115. Aftermarket trading in Embryo common stock began at approximately 11:30 a.m. on November 17, 1995. Within minutes of the start of aftermarket trading, Sterling Foster, through Kellerman, repurchased 485,800 shares of Embryo common stock, or 42 percent of the offering, at \$ 9 9/32 to \$ 11 per share. Sterling Foster and Lieberman, directly and through Sterling Foster registered representatives, had arranged these repurchases prior to the commencement of aftermarket trading in Embryo common stock.

116. Within an hour of the commencement of aftermarket trading on November 17, 1995 Sterling Foster's proprietary account sold approximately 3.1 million shares of Embryo common stock to customers at prices ranging from \$9 7/8 to \$10 1/16 per share.

117. At Lieberman's instruction, Sterling Foster registered representatives created artificial demand for Embryo common stock by; preselling Embryo common stock prior to the Embryo Offering becoming effective; executing unauthorized purchases of Embryo common stock for customer accounts; and making material misrepresentations to Embryo customers to induce their purchases of Embryo common stock.

118. In the weeks after the Embryo Offering, Sterling Foster, Lieberman and Monroig, through Sterling Foster registered representatives, restricted the public float of Embryo stock by refusing to execute customer sell orders, as detailed in Paragraphs 24 to 27 above.

119. Sterling Foster exhibited price leadership in Embryo common stock on November 17, 1995. On that day, Sterling Foster, through Kellerman, entered the high bid,

either exclusively or shared, for Embryo common stock 75 percent of the time. Sterling Foster accounted for 96.71 percent of the trading volume in Embryo common stock on November 17, 1995.

120. On November 17, 1995, the price of Embryo common stock increased to \$11 6/8 per share. There were no news stories or corporate developments relating to Embryo during this period to account for this increase.

121. The price of Embryo common stock peaked at \$13 1/2 per share on December 11, 1995 and then began to drift slowly downward. Sterling Foster slowed this price decline by continuing to delay, or refuse, the execution of customer sell orders for Embryo stock and by continuing to make misrepresentations to Sterling Foster customers to induce purchases of Embryo common stock.

122. As of February 11, 1997, the closing price for Embryo common stock was \$2 7/16 per share.

Misrepresentations in the Offer and Sale of Embryo Stock

123. In addition to the material misrepresentations and omissions alleged in Paragraph 23 above, Sterling Foster registered representatives induced customer purchases of Embryo common stock in the aftermarket by misrepresenting to customers that: (1) the registered representative was not earning any compensation on these purchases; and (2) that Embryo had a new syringe needle that was about to obtain Food and Drug Administration ("FDA") approval.

124. These representations were materially false because: (1) Sterling Foster registered representatives were compensated \$1.00 for each share of Embryo common stock sold in the aftermarket; (2) as of November 17, 1995, Embryo's needle was only in the developmental stages and had not been submitted for FDA approval.

Excessive Undisclosed Markups on Embryo Stock

125. As a result of Sterling Foster's retail sales effort, on November 17, 1995, Sterling Foster had a short position in Embryo common stock of approximately 2.7 million shares.

126. To cover this short position, between November 27, 1995 and February 13, 1996, Sterling Foster released the Embryo Selling Shareholders from the Embryo lock-up agreement and Lieberman arranged for Sterling Foster to purchase approximately 3 million shares of Embryo stock directly from the Embryo Selling Shareholders at \$2 per share.

127. Sterling Foster charged markups of at least \$7.50 per share, totaling approximately \$21 million, to its customers who purchased Embryo common stock on November 17, 1995.

128. These markups were not disclosed to Sterling Foster customers who purchased Embryo common stock on November 17, 1995.

Manipulation of Applewoods Common Stock

129. After the close of trading on April 10, 1996, a registration statement for an initial public offering of Applewoods common stock ("Applewoods Offering"), underwritten

by Sterling Foster, became effective. The Applewoods Offering consisted of 1.2 million shares of common stock, at \$5.00 per share.

130. Sterling Foster exercised an over-allotment option granted to it by Applewoods for an additional 180,000 shares, bringing the total distribution in the Applewoods Offering to 1,380,000 shares.

131. Sterling Foster received \$207,000 in underwriting fees in connection with the Applewoods Offering.

132. Sterling Foster allocated itself 1,054,650 shares, or 76 percent of the Applewoods Offering, which it distributed to its customers on April 11, 1996. Sterling Foster allocated the remaining 325,350 shares to other broker-dealers in the selling syndicate.

Manipulation of the Aftermarket for Applewoods Common Stock

133. Sterling Foster dominated and controlled the aftermarket for Applewoods common stock between April 11 and at least April 26, 1996, by repurchasing Applewoods common stock in the immediate aftermarket.

134. Aftermarket trading in Applewoods common stock began at 12:00 p.m. on April 11, 1996. Sterling Foster, through Kellerman, repurchased approximately 700,000 shares of Applewoods common stock, or 51 percent of the offering, at \$8 1/2 to \$8 7/8 per share. Sterling Foster and Lieberman, directly and through Sterling Foster registered representatives, had arranged these repurchases prior to the commencement of aftermarket trading in Applewoods stock.

135. On April 11, 1996, Sterling Foster sold approximately 2.1 million Applewoods shares to its customers at prices ranging from \$9 to \$14 1/4.

136. At Lieberman's instruction, Sterling Foster registered representatives created artificial demand for Applewoods common stock by: preselling Applewoods common stock prior to the Applewoods offering becoming effective; executing unauthorized purchases of Applewoods common stock for customer accounts; and making material misrepresentations to Applewoods customers to induce their purchases of Applewoods common stock.

137. In the weeks after the Applewoods Offer, Sterling Foster, Lieberman and Monroig, through Sterling Foster registered representatives, restricted the public float of Applewoods stock by refusing to execute customer sell orders, as detailed in Paragraphs 24 to 27 above.

138. Sterling Foster exhibited price leadership in Applewoods common stock on April 11, 1996. On that day, Sterling Foster, through Kellerman, entered the high bid, either exclusively or shared, for Applewoods common stock 88 percent of the time. Sterling Foster accounted for 76.72 percent of the trading volume in Applewoods common stock on April 11, 1996.

139. On April 11, the market price of Applewoods common stock increased to \$14 4/8. There were no news stories or corporate development relating to Applewoods during this period to account for this increase.

140. The price of Applewoods common stock peaked at \$18 3/4 per share in May

1996 and then began to drift slowly downward. Sterling Foster slowed this price decline by continuing to delay, or refuse, the execution of customer sell orders for Applewoods stock and by continuing to make misrepresentations to Sterling Foster customers to induce purchases of Applewoods common stock.

141. As of February 11, 1997, the closing price for Applewoods common stock was \$2 per share.

Misrepresentations in the Offer and Sale of Applewoods Securities

142. In addition to the material misrepresentations and omissions alleged in Paragraph 23 above, Sterling Foster registered representatives induced customer purchases of Applewoods common stock in the aftermarket by misrepresenting to customers that the registered representative was not earning any compensation on these purchases.

143. This representation was materially false because Sterling Foster registered representatives were compensated \$2.00 for each share of Applewoods common stock sold in the aftermarket.

Manipulation of ML Direct Common Stock

144. After the close of trading on September 3, 1996, a registration statement for an initial public offering of ML Direct securities ("ML Direct Offering"), underwritten by Patterson Travis, Inc. ("Patterson Travis"), a registered broker-dealer, became effective. The ML Direct Offering consisted of 480,000 units, each comprised of two shares of common stock and one warrant -- at a price of \$15 per unit. The warrants were exercisable

beginning one year after the effective date of the ML Direct Offering.

145. Patterson Travis exercised an over-allotment option granted to it by ML Direct for an additional 72,000 units, bringing the total distribution in the ML Direct Offering to 552,000 units.

146. In addition to the 552,000 units comprising the ML Direct Offering, ML Direct simultaneously registered, pursuant to Rule 415 under the Securities Act, 17 C.F.R. § 230.415, a separate "shelf" offering of 2,400,000 shares of common stock owned by approximately 8 people and entities ("ML Direct Selling Shareholders").

147. According to the ML Direct Offering prospectus, the ML Direct Selling Shareholders had an agreement with ML Direct pursuant to which the Selling Shareholders agreed not to sell their shares for a period of twelve months from the effective date of the offering without the approval of Patterson Travis ("ML Direct lock-up agreement").

Manipulation of the Aftermarket for ML Direct Securities.

148. Sterling Foster dominated and controlled the aftermarket for ML Direct Voice securities between September 4, 1996 and at least September 20, 1996, by purchasing ML Direct common stock in the immediate aftermarket and by selling more than 100 percent of the public float of ML Direct common stock with its customers.

149. Kellerman on behalf of Sterling Foster, which was not a member of the ML Direct selling syndicate, purchased 255,000 units, or 46 percent of the offering distribution, between 11:33 and 11:35 p.m. on September 4, 1996 for the firm's proprietary account.

150. Shortly thereafter, Kellerman split the units into their common stock and warrant components and defendants Sterling Foster, Lieberman and Kellerman began to manipulate the market for ML Direct common stock.

151. Sterling Foster sold over 3.8 million shares of ML Direct to its customers on September 4, 1996 at prices ranging from \$13.50 to \$14.50 per share.

152. At Lieberman's instruction, Sterling Foster registered representatives created artificial demand for ML Direct common stock by: preselling ML Direct common stock prior to the ML Direct Offering becoming effective; executing unauthorized purchases of ML Direct common stock for customer accounts; and making material misrepresentations to ML Direct customers to induce their purchases of ML Direct common stock.

153. In the weeks after the ML Direct Offering, Sterling Foster, Lieberman and Monroig, through Sterling Foster registered representatives, restricted the public float of ML Direct stock by refusing to execute customer sell orders, as detailed in Paragraphs 24 to 27 above.

154. Sterling Foster exhibited price leadership in ML Direct common stock between September 4 and at least September 18, 1996. During that period, Sterling Foster, through Kellerman, entered the high bid, either exclusively or shared, for ML Direct common stock, 82 percent of the time. Sterling Foster accounted for 76.4 percent of the trading volume in ML Direct common stock between September 4, 1996 and September 6, 1996.

155. On September 4, the high trade price for ML Direct common stock was \$14

3/4. There were no news stories during this period to account for this increase.

156. The price of ML Direct common stock peaked at \$16 1/4 on September 24, 1996 and then began to drift slowly downward. Sterling Foster slowed this price decline by continuing to delay, or refuse, the execution of customer sell orders for ML Direct stock and by continuing to make misrepresentations to Sterling Foster customers to induce purchases of ML Direct common stock.

157. As of February 11, 1997, the closing price for ML Direct common stock was \$3 1/8 per share.

Misrepresentations in the Offer and Sale of ML Direct Securities

158. In addition to the material misrepresentations and omissions alleged in Paragraph 23 above, Sterling Foster registered representatives induced customer purchases of ML Direct common stock in the aftermarket by misrepresenting to customers that (1) the registered representative was not earning any money on these purchases; (2) that the ML Direct Offering was being underwritten by Sterling Foster; (3) that ML Direct had five times the sales revenues as Home Shopping Network; and that (4) that Home Shopping Network was buying out ML Direct.

159. These representations were materially false because: (1) Sterling Foster registered representatives were compensated \$.50 for each share of ML Direct common stock sold in the aftermarket; (2) the ML Direct Offering was underwritten by Patterson Travis; (3) ML Direct did not have greater sales revenue than Home Shopping Network; and (4) the

ML Direct Offering prospectus disclosed that ML Direct had no affiliation with Home Shopping Network and no announcement has been made by Home Shopping Network concerning plans to buy out ML Direct.

Excessive Undisclosed Markups on ML Direct Securities

160. As a result of Sterling Foster's retail sales effort, on September 4, 1996, Sterling Foster had a short position in ML Direct common stock of over 3 million shares.

161. To cover a portion of its short position, on or before September 12, 1996, Lieberman arranged for Sterling Foster to purchase 2.4 million shares of ML Direct common stock -- and 2 million Class A warrants -- for \$7.8 million directly from the ML Direct Selling Shareholders, whom Patterson Travis had released from the ML Direct lock-up agreement.

162. Sterling Foster charged markups of approximately \$10.50 per share, totaling \$25.2 million, to its customers who purchased ML Direct common stock on September 4, 1996.

163. These markups were not disclosed to Sterling Foster customers who purchased ML Direct common stock on September 4, 1996.

Misrepresentations in the Offer and Sale of Lasergate and Advanced Voice Securities by Rueb

164. In or about late January 1995, when the market price of Lasergate was at \$13 1/2 per share, one of Rueb's customers, Paul Volovar ("Volovar"), called Rueb and placed an order to sell Volovar's Lasergate common stock.

165. A day or two later, Rueb falsely told Volovar that Volovar's Lasergate stock had been sold when, in fact, it had not.

166. Volovar's Lasergate common stock was not sold until March 13, 1995 at \$7 per share.

167. At various times between in or about late January and early March, 1995, Rueb made material misrepresentations and omissions to Volovar about the status of his sell order for Lasergate stock.

168. On or about February 24, 1995, another one of Rueb's customers, Ken Boyd ("Boyd"), called Rueb and placed an order to sell Boyd's Lasergate and Advanced Voice common stock. Rueb falsely told Boyd that he was "writing up the order ticket" while he was on the phone with Boyd.

169. Rueb did not execute Boyd's sell order on February 24, 1995. Boyd's stock was not sold until on or about March 7, 1995.

170. At various times between on or about February 24, 1995 and March 7, 1995, Rueb made material misrepresentations and omissions to Boyd about the status of his sell order for Lasergate stock.

171. On or about February 24, 1995, another one of Rueb's customers, Neil Greenberg ("Greenberg"), placed an order with Rueb to sell Greenberg's Advanced Voice common stock.

172. Greenberg's Advanced Voice stock was not sold until on or about March 9,

1996.

173. Between February 24, 1995 and March 9, 1996, Rueb made material misrepresentations and omissions to Greenberg about the status of his sell order for Advanced Voice stock.

CLAIMS FOR RELIEF

FIRST CLAIM FOR RELIEF

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

**(Manipulation -- Sterling Foster,
Lieberman and Kellerman)**

174. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 173 above.

175. From in or about October 1994 through the present, Sterling Foster, Lieberman and Kellerman, 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, have: (1) employed, and are about to employ, devices, schemes and artifices to defraud; (2) obtained, and are about to obtain, money or property by means of, or otherwise made, and are about to make, untrue statements of material fact, or have omitted, and are about to omit, 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, and are about to engage, in acts, transactions, practices and courses of business which have operated as a fraud or deceit upon purchasers of the Securities and other persons.

176. As part and in furtherance of this fraudulent conduct, Sterling Foster, Lieberman and Kellerman, knowingly or recklessly, directly or indirectly, manipulated the market for the Securities as described in Paragraphs 21 through 173 above.

177. By reason of the foregoing, Sterling Foster, Lieberman and Kellerman, have, directly or indirectly, singly or in concert, violated, and unless temporarily, preliminarily and permanently restrained and enjoined, will again 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

Violations of Sections 10(b) and 15(c)(1) of the Exchange Act and Rules 10b-3, 15c1-2 and 15c1-8

(Manipulation -- Sterling Foster and Lieberman)

178. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 173 above.

179. From in or about October 1994 through the present Sterling Foster has used, and is about to use, the mails or means or instrumentalities of interstate commerce, to effect transactions in, or to induce or attempt to induce the purchase of securities otherwise than on a national securities exchange by means of manipulative, deceptive, or other fraudulent

devices or contrivances, including making untrue statements of material fact, omitting to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading.

180. As part and in furtherance of this fraudulent conduct, Sterling Foster and Lieberman, knowingly or recklessly, directly or indirectly, manipulated the market for the Securities as described in Paragraphs 21 through 173 above.

181. By reason of the foregoing, Sterling Foster and Lieberman, as a controlling person of Sterling Foster pursuant to Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), have, directly or indirectly, singly or in concert, violated, and unless temporarily, preliminarily and permanently restrained and enjoined, will again violate Sections 10(b) and 15(c)(1) of the Exchange Act, 15 U.S.C. § 78j(b) and 78o(c)(1), and Rules 10b-3, 15c1-2 and 15c1-8, 17 C.F.R. §§ 240.10b-3, .15c1-2 and .15c1-8.

THIRD CLAIM FOR RELIEF

Violations of Exchange Act Rule 10b-6

(Transactions During Participation
in a Distribution --
Sterling Foster, Lieberman and Kellerman)

182. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 173 above.

183. Before Sterling Foster's participation in the Lasergate, Advanced Voice, ComTech, Embryo, Applewoods and ML Direct offerings was complete, and before these

offerings had come to rest with the investing public, Sterling Foster, Lieberman and Kellerman, directly and indirectly, by use of the means or instrumentalities of interstate commerce or of the mails, repurchased Lasergate, Advanced Voice, ComTech, Embryo, Applewoods, and ML Direct securities for Sterling Foster's own account.

184. Before Sterling Foster's participation in the distribution of the Securities' offerings was complete, Sterling Foster and Lieberman, directly and indirectly, by use of the means and instrumentalities of interstate commerce or of the mails, solicited aftermarket purchases of the Securities.

185. By reason of the foregoing acts, practices and courses of business, Sterling Foster, Lieberman, and Kellerman, have, directly or indirectly, singly or in concert, violated, and unless temporarily, preliminarily, and permanently restrained and enjoined, will again violate Exchange Act Rule 10b-6, 17 C.F.R. § 240.10b-6.

FOURTH CLAIM FOR RELIEF

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

**(Material Misrepresentations and Omissions --
Sterling Foster, Lieberman, Monroig and Rueb)**

186. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 173 above.

187. From in or about October 1994 through the present, Sterling Foster,

Lieberman, Monroig and Rueb, 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, have: (1) employed, and are about to employ, devices, schemes and artifices to defraud; (2) obtained, and are about to obtain, money or property by means of, or otherwise made, and are about to make, untrue statements of material fact, or have omitted, and are about to omit, 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, and are about to engage, in acts, transactions, practices and courses of business which have operated as a fraud or deceit upon purchasers of the Securities and other persons.

188. As part of and in furtherance of this fraudulent conduct, Sterling Foster, Lieberman and Monroig, knowingly or recklessly, failed to disclose to Sterling Foster customers who purchased the Securities that Sterling Foster, through Lieberman and Kellerman, was manipulating the price of the Securities.

189. As part of and in furtherance of this violative conduct, Sterling Foster, Lieberman, and Monroig, directly and indirectly, induced customer purchases of the Securities, by means of material misrepresentations and omissions.

190. As part of and in furtherance of this violative conduct, Rueb made material misrepresentations and omissions to his customers concerning Advanced Voice and

Lasergate.

191. Sterling Foster, Lieberman, Monroig, and Rueb made these misrepresentations and omissions knowingly or with reckless disregard for their truth.

192. By reason of the foregoing, Sterling Foster, Lieberman, Monroig and Rueb, have, directly or indirectly, singly or in concert, violated, and unless temporarily, preliminarily and permanently restrained and enjoined, will again 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.

FIFTH CLAIM FOR RELIEF

**Violations of Sections 10(b) and 15(c)(1)
of the Exchange Act and Rules 10b-3, 15c1-2 and 15c1-8**

**(Misrepresentations and Omissions --
Sterling Foster and Lieberman)**

193. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 173 above.

194. From in or about October 1994 through the present Sterling Foster has used, and is about to use, the mails or means or instrumentalities of interstate commerce, to effect transactions in, or to induce or attempt to induce the purchase of the Securities otherwise than on a national securities exchange by means of manipulative, deceptive, or other fraudulent devices or contrivances, including making untrue statements of material fact, omitting to state material facts necessary in order to make statements made, in light of the

circumstances under which they were made, not misleading.

195. While participating in the distributions of the Securities, Sterling Foster impliedly represented to its customers that it was offering the Securities "at the market" or at a price related to the market price, while knowing or having reasonable grounds to believe that a market for the Securities, other than that made, created or controlled by Sterling Foster, did not exist.

196. Sterling Foster, through Lieberman, Monroig, Rueb and other Sterling Foster registered representatives, also made material misrepresentations to Sterling Foster customers in connection with the sale of the Securities by falsely telling customers that their securities had been sold when in fact they had not been. Sterling Foster knew or was reckless in not knowing that these misrepresentations were untrue.

197. As part of and in furtherance of this violative conduct, Sterling Foster, directly and indirectly, induced customer purchases of the Securities by means of material misrepresentations and omissions.

198. By reason of the foregoing, Sterling Foster and Lieberman as a controlling person pursuant to Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), have, directly or indirectly, singly or in concert, violated, and unless temporarily, preliminarily and permanently restrained and enjoined, will again violate Sections 10(b) and 15(c)(1) of the Exchange Act, 15 U.S.C. § 78j(b) and 78o(c)(1), and Rules 10b-3, 15c1-2 and 15c1-8, 17 C.F.R. §§ 240.10b-3, .15c1-2 and .15c1-8.

SIXTH CLAIM FOR RELIEF

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

**(Excessive Undisclosed Markups --
Sterling Foster, Lieberman and Kellerman)**

199. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 173 above.

200. From in or about October 1994 through the present, Sterling Foster, Lieberman and Kellerman, 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 the Securities, knowingly or recklessly, have: (1) employed, and are about to employ, devices, schemes and artifices to defraud; (2) obtained, and are about to obtain, money or property by means of, or otherwise made, and are about to make, untrue statements of material fact, or have omitted, and are about to omit, 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, and are about to engage, in acts, transactions, practices and courses of business which have operated as a fraud or deceit upon purchasers of the Securities and other persons.

201. As part of and in furtherance of this violative conduct, Sterling Foster, Lieberman, and Kellerman without disclosure, charged Sterling Foster customers markups on

their purchases of the Securities in excess of 10 percent of its contemporaneous costs.

202. Sterling Foster, Lieberman, and Kellerman knowingly or recklessly charged these undisclosed excessive markups.

203. By reason of the foregoing, Sterling Foster, Lieberman and Kellerman, have, directly or indirectly, singly or in concert, violated, and unless temporarily, preliminarily and permanently restrained and enjoined, will again violate Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a)(1), 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.

SEVENTH CLAIM FOR RELIEF

Violations of Sections 10(b) and 15(c)(1) of the Exchange Act and Rules 10b-3, 15c1-2 and 15c1-8

**(Excessive Undisclosed Markups --
Sterling Foster and Lieberman)**

204. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 173 above.

205. From in or about October 1994 through the present Sterling Foster has used, and is about to use, the mails or means or instrumentalities of interstate commerce, to effect transactions in, or to induce or attempt to induce the purchase of the Securities otherwise than on a national securities exchange by means of manipulative, deceptive, or other fraudulent devices or contrivances, including making untrue statements of material fact, omitting to state material facts necessary in order to make statements made, in light of the

circumstances under which they were made, not misleading.

206. As part of and in furtherance of this violative conduct, Sterling Foster, without disclosure, charged Sterling Foster customers markups on their purchases of the Securities in excess of 10 percent of its contemporaneous costs.

207. Sterling Foster charged these undisclosed excessive markups with knowledge or reasonable grounds to believe that they had not been disclosed to customers and were excessive.

208. By reason of the foregoing, Sterling Foster and Lieberman, as a controlling person of Sterling Foster pursuant to Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), have, directly or indirectly, singly or in concert, violated, and unless temporarily, preliminarily and permanently restrained and enjoined, will again violate Sections 10(b) and 15(c)(1) of the Exchange Act, 15 U.S.C. § 78j(b) and 78o(c), and Rules 10b-3, 15c1-2 and 15c1-8, 17 C.F.R. §§ 240.10b-3, .15c1-2 and .15c1-8.

RELIEF REQUESTED

WHEREFORE, Plaintiff respectfully requests that this court:

I.

Enter an Order temporarily restraining and preliminarily enjoining Sterling Foster, its agents, servants, employees, attorneys, and all persons in active concert or participation with it who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations of Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), and

Sections 10(b) and 15(c)(1) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78o(c)(1) and Rules 10b-3, 10b-5, 10b-6, 15c1-2, and 15c1-8, 17 C.F.R. §§ 240.10b-3, 10b-5, 10b-6, 15c1-2, and 15c1-8.

II.

Enter an Order appointing a Special Compliance Monitor for Sterling Foster.

III.

Enter an Order temporarily restraining and preliminarily enjoining Lieberman, his agents, servants, employees, attorneys, and all persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations 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 Rules 10b-3, 10b-5, and 10b-6, 17 C.F.R. §§ 240.10b-3, 10b-5, and 10b-6, and as a controlling person under Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), for Sterling Foster's violations of Section 15(c)(1) of the Exchange Act, 15 U.S.C. § 78o(c), and Rules 15c1-2 and 15c1-8, 17 C.F.R. §§ 240.15c1-2 and 15c1-8.

IV.

Enter an Order temporarily restraining and preliminarily enjoining Kellerman, his agents, servants, employees, attorneys, and all persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations 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 Rules 10b-3, 10b-5, and 10b-6, 17 C.F.R. §§ 240.10b-3, 10b-5, and 10b-6.

V.

Enter and Order temporarily restraining and preliminarily enjoining Monroig, his agents, servants, employees, attorneys, and all persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations of Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5.

VI.

Grant a Final Judgment permanently enjoining Sterling Foster, its agents, servants, employees, attorneys, and all persons in active concert or participation with it who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations of Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), and Sections 10(b) and 15(c)(1) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78o(c), and Rules 10b-3, 10b-5, 10b-6, 15c1-2, and 15c1-8, 17 C.F.R. §§ 240.10b-3, 10b-5, 10b-6, 15c1-2, and 15c1-8.

VII.

Grant a Final Judgment permanently enjoining Lieberman, his agents, servants, employees, attorneys, and all persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, and each of them, from

future violations 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 Rules 10b-3, 10b-5, and 10b-6, 17 C.F.R. §§ 240.10b-3, 10b-5, and 10b-6 and as a controlling person under Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), for Sterling Foster's violations of Section 15(c)(1) of the Exchange Act, 15 U.S.C. § 78o(c)(1), and Rules 15c1-2 and 15c1-8, 17 C.F.R. §§ 240.15c1-2 and 15c1-8.

VIII.

Grant a Final Judgment permanently enjoining Kellerman, his agents, servants, employees, attorneys, and all persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations 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 Rules 10b-3, 10b-5, and 10b-6, 17 C.F.R. §§ 240.10b-3, 10b-5, and 10b-6.

IX.

Grant a Final Judgment permanently enjoining Monroig and Rueb, their agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations 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.

X.

Grant a Final Judgment requiring the Defendants to disgorge an amount equal to the funds and benefits they obtained illegally as a result of the violations alleged herein, plus prejudgment interest on that amount.

XI.

Grant a Final Judgment assessing penalties against the Defendants pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78u(d).

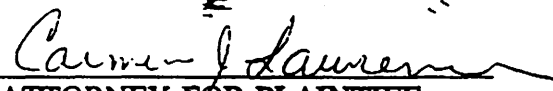
XII.

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

Dated: New York, New York
February 14, 1997

Respectfully Submitted,

CARMEN J. LAWRENCE (CL-9154)
Regional Director


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