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**UNITED STATES DISTRICT COURT  
DISTRICT OF NEW JERSEY**

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SECURITIES AND EXCHANGE COMMISSION, :  
 :  
 Plaintiff, : Civil Action No. 98- <sup>-5207</sup> MTS  
 :  
 -against- : COMPLAINT  
 :  
 ANTHONY GIANNINOTO and :  
 EILEEN LAINE, :  
 :  
 Defendants. :  
-----X

Plaintiff Securities and Exchange Commission ("Commission"), for its Complaint against defendants Anthony Gianninoto ("Gianninoto") and Eileen Laine ("Laine"), (collectively, "Defendants"), alleges that:

1. This is the second action brought by the Commission arising from the "Ponzi" scheme in which First Interregional Equity Corporation ("FIEC"), First Interregional Advisors Corporation ("FIAC"), and their principals defrauded hundreds of investors out of more than

\$100 million. On March 6, 1997, the Commission charged FIAC, formerly an equipment lease finance company that is now a debtor in bankruptcy; FIEC, a registered broker-dealer now in liquidation; and Richard Goettlich ("R. Goettlich"), formerly president of FIAC and FIEC, with selling investors securities in the form of assignments to equipment leases ("Lease Assignments") that already had been sold to other investors. *SEC v. First Interregional Advisors Corp., et al.*, 97 Civ. 1144 (MTB) (D.N.J.).

2. Gianninoto and Laine, who were FIAC and FIEC employees, were directly involved in the fraud. They created and sent investors materially false and misleading documents concerning the Lease Assignments, falsified books and records, and engaged in other conduct that enabled the Lease Assignment fraud to continue for several years. In addition, beginning in 1988, Gianninoto and Laine, together with other FIEC personnel, perpetrated another fraud on investors: the systematic misappropriation of bonds owned by FIEC customers, and the use of those bonds, among other things, to meet FIEC's net capital requirements and generate cash for the personal use of others associated with FIEC and FIAC.

3. Defendants, directly and indirectly, have engaged in, transactions, acts, practices and courses of business that constitute violations of Section 17(a) of the Securities Act of 1933 (the "Securities Act"), 15 U.S.C. §§ 77q(a), and Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5, thereunder. Defendants also, directly and indirectly, have knowingly provided substantial assistance to FIEC in violating Section 17(a)(1) of the Exchange Act, 15 U.S.C. §

78q(a)(1), and Rules 17a-3 and 17a-11, 17 C.F.R. §§ 240.17a-3 and 17a-11, thereunder and, pursuant to Section 20(f) of the Exchange Act, 15 U.S.C. § 78t(f), are liable for aiding and abetting FIEC's violations of that Section and those rules.

4. Unless Defendants are enjoined by this Court, 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**

5. 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), for a final judgment (a) permanently enjoining the Defendants from engaging in the transactions, acts, practices and courses of conduct alleged in this Complaint; (b) directing the Defendants to disgorge their ill-gotten gains, plus prejudgment interest; and (c) requiring the Defendants to provide an accounting. 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) of the Exchange Act, 15 U.S.C. § 78u(d), for a final judgment imposing civil penalties against the Defendants.

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

7. Defendants, directly or indirectly, have 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 which occurred in the District of New Jersey, including the fraudulent offer and sale of Lease Assignments and misappropriation of securities from customer accounts.

**DEFENDANTS**

8. Gianninoto, age 50, of Tewksbury, New Jersey, was the controller and registered financial operations principal of FIEC from 1983 to 1997, and the vice president, secretary and treasurer of FIAC from 1992 to 1997. Gianninoto's responsibilities included monitoring the flow of funds between FIAC and FIEC and supervising the back office and accounting operations of both entities.

9. Laine, age 46, of Millburn, New Jersey, was the data processing manager at FIEC from in or about 1983 through March 1997, and worked at FIAC in the same capacity from in or about 1992 through March 1997. Laine's responsibilities included maintaining the computer system, supervising some of the back office staff and, under Gianninoto's supervision, monitoring the flow of funds between FIAC and FIEC.

## THE FRAUDULENT SCHEMES

### A. Lease Assignment Fraud

10. From approximately 1992 to 1997, FIAC, FIEC, R. Goettlich, and the Defendants offered and sold to investors Lease Assignments to equipment leases that FIAC purportedly had purchased from office equipment manufacturers or dealers. As part of FIAC's lease finance business, FIAC took assignments to the lease payments, billed lessees, and purported to remit those lease payments to the investors who ostensibly had acquired the leases in question. The Lease Assignments were fraudulent principally in that FIAC, FIEC, R. Goettlich, and the Defendants purported to convey to investors all right, title and interest in the same leases that FIAC already had sold to other investors. From 1992 through March 1997, FIAC, FIEC, R. Goettlich, and the Defendants sold to over 1700 investors more than \$295 million in Lease Assignments, a sum that exceeded FIAC's lease receivable inventory by at least \$100 million.

11. The Lease Assignments that FIAC sold purportedly constituted the assignment of leases of photocopying machines, facsimile machines, vehicles and other equipment. The majority of FIAC's investors were also customers of FIEC. In fact, FIAC sold the Lease Assignments to investors through registered representatives employed by FIEC, and paid commissions on sales of the Lease Assignments to FIEC employees directly.

12. In offering and selling these Lease Assignments, FIAC and FIEC represented to investors, among other things, that (a) they were receiving all right, title and interest in *bona*

*fide* equipment lease obligations; (b) the Lease Assignments were pass-throughs of federal and municipal obligations and, therefore, backed by the creditworthiness of a government lessee; (c) investors would receive monthly principal and interest payments from the receivable stream of a single lease; and (d) that the interest payments on Lease Assignments with states or municipalities were tax-exempt.

13. The representations described in paragraph 12 were contained in one or more of the following documents which FIAC sent to investors concerning their investment in the Lease Assignments: (a) a "Buyer Confirmation" identifying a trade date, customer information, an "assignment number," the name of the lessee and payment information; (b) a "Lease Amortization Schedule" itemizing each monthly payment due to the investors, broken out into principal and interest components; (c) an "Assignment to Investor," signed by R. Goettlich and purporting to assign a specific lease or group of leases; and (d) certain sales literature sent by FIEC and FIAC. FIAC also sent to investors monthly account statements purportedly identifying the Lease Assignments held in the account as well as the transactions that had occurred in the customer's account during the time period covered by the account statement. FIAC, however, did not send investors originals or copies of the lease underlying the Lease Assignment.

14. Each of the representations described in paragraph 12 was material. Each of those representations was false.

15. Beginning in or about 1992 and continuing through March 1997, Gianninoto knew that FIAC and FIEC were defrauding investors in the Lease Assignments by selling the same receivable stream to several investors at a time. Gianninoto specifically discussed this with R. Goettlich as early as 1992. In addition, from in or about 1992 through March 1997, Gianninoto supervised and directed back office operations for the sale of Lease Assignments and knew that those back office operations consisted of two *de facto* subunits. Specifically, FIAC used Laine and one bank account for Lease Assignments when the same receivables were being sold to multiple investors (the "Cloned Lease Assignments"). FIAC used other employees and another bank account for Lease Assignments when the underlying lease receivables had not yet been sold to other investors (the "First Generation Lease Assignments").

16. From in or about 1992 through March 1997:

a. Gianninoto directly or indirectly sent investors materially false documentation concerning the Lease Assignments -- documentation that investors received both before and after they sent their payments to FIAC to buy the Lease Assignments. Under Gianninoto's supervision, Laine created and sent to investors Buyer Confirmations, Lease Amortization Schedules, Assignments to Investor, and monthly account statements for the Cloned Lease Assignments, which contained materially false and misleading information about the Lease Assignments. Under Gianninoto's supervision, a different group of back office employees created and

distributed to investors these same documents for the First Generation Lease Assignments.

b. Gianninoto monitored the growth and operation of the fraud by keeping track of the payments due to Lease Assignment investors and payments received on actual lease inventory. Gianninoto relayed this information to R. Goettlich, thus enabling R. Goettlich to determine how many more Cloned Lease Assignments needed to be sold to make timely payments to existing investors.

c. Under Gianninoto's supervision, FIAC's back office segregated proceeds from the sale of Lease Assignments into two separate bank accounts. Proceeds from the sale of First Generation Lease Assignments went into FIAC's operating account, and proceeds from the sale of Cloned Lease Assignments went into a different FIAC account established for that specific purpose. At Gianninoto's instruction, Laine created and sent to investors checks, drawn on the latter account and co-signed by Gianninoto and R. Goettlich, representing principal and interest payments on the Cloned Lease Assignments.

d. Gianninoto also coordinated the diversion of proceeds from the sale of the Cloned Lease Assignments directly or indirectly into accounts controlled by FIEC, R. Goettlich, and others. As Gianninoto well knew, R. Goettlich used a substantial portion of the funds raised from selling Cloned Lease Assignments to fund lavish personal expenses for himself and others, and to cover expenses of FIEC.



17. Beginning in or about 1992 through March 1997, Laine knew that the many of the Lease Assignments were not supported by existing leases or unencumbered receivable streams. From in or about 1992 through March 1997, Laine (a) maintained the books and records for the Cloned Lease Assignments; (b) created and sent to investors documentation for the Cloned Lease Assignments, including Buyer Confirmations, Lease Amortization Schedules, Assignments to Investor, and monthly account statements, that she knew contained misrepresentations concerning the Lease Assignments; (c) sent to purchasers of the Cloned Lease Assignments monthly account statements purportedly identifying their lease holdings and principal and interest payments; and (d) prepared the checks for the purported principal and interest payments on the Cloned Lease Assignments and mailed them to investors. Laine also kept track of payments investors made to purchase the Cloned Lease Assignments, deposited these payments into a separate bank account, and then executed wire transfers from that account to other accounts from which funds were diverted to pay for the personal expenses of R. Goettlich and others and the expenses of FIEC.

**B. Misappropriation of Bonds**

18. From in or about 1988 through in or about 1993, FIEC, R. Goettlich, and Defendants fraudulently transferred to FIEC's proprietary inventory account government and municipal bonds purchased by and held for FIEC customers, without those customers' knowledge or authorization. FIEC, R. Goettlich, and Defendants misappropriated over \$20 million in customer bonds between in or about 1988 through in or about 1993.

19. From in or about 1988 through in or about 1993, FIEC, R. Goettlich, and Defendants deceived FIEC's customers by sending them monthly account statements that falsely showed that bonds were being held in customer accounts when those bonds had been misappropriated. The misrepresentations contained in these monthly account statements, that FIEC was holding particular bonds in safekeeping in the account of the customers, were material. Also, from in or about 1988 through in or about March 1997, FIEC, R. Goettlich and Defendants sold bonds to investors representing implicitly and explicitly that FIEC, as a broker-dealer, would hold customer securities in safe keeping, while omitting to disclose that FIEC and its principals were engaging in, or had engaged in, a long-term practice of misappropriating customer property. These misrepresentations and omissions were material.

20. FIEC used the proceeds of the unauthorized transfer and sale of customer bonds to (a) finance business enterprises run by a relative of R. Goettlich; (b) bolster FIEC's net capital; and (c) make cash payments to R. Goettlich, Gianninoto and Laine. To conceal these unauthorized sales, FIEC issued to customers monthly payments which it falsely represented to be payments of coupon interest on the bonds. Initially, the money for these "interest" payments came from proceeds of the misappropriated bonds. Later, however, FIEC used proceeds from the sale of Cloned Lease Assignments to continue these payments.

21. Gianninoto helped to orchestrate and execute the bond misappropriation from its inception. Beginning in 1988, Gianninoto arranged for the transfer of customer bonds from customer safekeeping accounts into FIEC's clearance account. Together with Laine,

Gianninoto then created a fictitious nominee account in the name of a relative of R. Goettlich ("Nominee Account") and altered FIEC's stock record to reflect that the misappropriated bonds were held in the Nominee Account. Gianninoto and Laine further altered the stock record to show that the bonds were transferred from the Nominee Account into FIEC's proprietary inventory account.

22. To conceal the fraud and further deceive investors, Gianninoto directed Laine to create and send to investors monthly account statements falsely identifying the misappropriated bonds as assets held by the customer, and credit the customers' accounts with "interest" payments on the misappropriated bonds.

23. Laine knowingly altered FIEC's books and records to effectuate the misappropriation of bonds from customer accounts and to conceal that misappropriation from those customers. Specifically, Laine (a) altered and falsified FIEC's stock record to show that the misappropriated bonds were in the Nominee Account and had never been held in the customer accounts from which they were misappropriated; and (b) created fraudulent monthly account statements indicating that the misappropriated bonds remained in customer accounts and generated interest income when, in fact, the misappropriated bonds were often sold by FIEC and therefore, produced no interest income for FIEC or the customer.

24. Laine also credited customer accounts with the purported "interest" payments. To facilitate this diversion of funds, Laine created a fictitious account through which, using

book entries, she ensured that customers received the proper payments and remained unaware of the fraud.

**C. Gianninoto and Laine Profited from Their Wrongful Conduct**

25. Gianninoto and Laine each received sizable compensation for their roles in these two fraudulent schemes. In addition to his annual salary, Gianninoto received at least (a) \$77,000 for Gianninoto's divorce settlement; (b) an additional \$75,000 gift; and (c) approximately \$350,000 in cash from FIEC. Gianninoto apparently used some of this compensation to purchase several sports cars, including four Corvettes, four Pontiac GTOs and a Pontiac Catalina -- all valued at a total of approximately \$237,000.

26. In addition to her annual salary, Laine received at least (a) \$100,000 from FIEC for the down-payment on her house and (b) \$50,000 in cash from a bank account that contained the proceeds from the sale of Cloned Lease Assignments.

**FIRST CLAIM FOR RELIEF**

**Violations of Section 17(a) of the Securities Act,  
15 U.S.C. § 77t(a), and Section 10(b) of the Exchange Act,  
15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.**

27. The Commission realleges and incorporates by reference the allegations contained in paragraphs 1 through 26 above.

28. The Lease Assignments are securities within the meaning of Section 2(1) of the Securities Act, 15 U.S.C. § 77b(1), and Section 3(a)(10) of the Exchange Act, 15 U.S.C. § 78c(a)(10).

29. Defendants Gianninoto and Laine, directly and indirectly, knowingly or recklessly, by the use of the means or instruments of transportation or communication in, and the means or instrumentalities of, interstate commerce or by the use of the mails, in the offer or sale, and in connection with the purchase or sale, of securities: (a) have employed and are about to employ devices, schemes or artifices to defraud; (b) have obtained and are about to obtain money or property by means of, or otherwise have made and are about to make untrue statements of material fact, or have omitted and are about to omit to state material facts necessary to make the statements, in light of the circumstances under which they were made, not misleading; or (c) have engaged in transactions, acts, practices and courses of business which have operated and would operate as a fraud or deceit upon purchasers or other persons.

30. As part of and in furtherance of this violative conduct, defendants Gianninoto and Laine, knowingly or recklessly, engaged in the fraudulent conduct alleged in paragraphs 1 through 26 above.

31. The false statements and omissions made by defendants Gianninoto and Laine, more fully described in paragraphs 10 through 26 above, were material.

32. By reason of the foregoing, defendants Gianninoto and Laine directly or indirectly, have violated and, unless permanently 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 promulgated thereunder, 17 C.F.R. § 240.10b-5.

#### **SECOND CLAIM FOR RELIEF**

##### **Aiding and Abetting Violations of Section 17(a)(1) of the Exchange Act, 15 U.S.C. § 78q(a)(1), and, Rules 17a-3 and 17a-11, thereunder, 17 C.F.R. §§ 240.17a-3 and 17a-11**

33. The Commission realleges and incorporates by reference the allegations contained in paragraphs 1 through 32 above.

34. As a result of the conduct alleged in paragraphs 1 through 26 above, FIEC, formerly a registered broker-dealer, failed to (a) make and keep such records as the Commission by rule prescribes as necessary and appropriate in the public interest and for the protection of investors; and (b) provide the Commission appropriate notice thereof, in violation of Section 17(a)(1) of the Exchange Act, 15 U.S.C. § 78q(a)(1), and Rules 17a-3 and 17a-11, 17 C.F.R. §§ 240.17a-3 and 17a-11, thereunder.

35. Defendants Gianninoto and Laine knowingly provided substantial assistance to FIEC in the violations set forth in paragraph 34 by, among other things, (a) falsifying and altering FIEC's securities records and ledgers to effectuate the misappropriation of FIEC customer bonds; (b) further falsifying and altering FIEC's stock record to reflect that FIEC owned those bonds; (c) falsifying and altering other records of FIEC or instructing others to do so; and (d) failing to timely notify the Commission of FIEC's failure to maintain accurate books and records.

36. By reason of the foregoing, under Section 20(f) of the Exchange Act, 15 U.S.C. § 78t(f), defendants Gianninoto and Laine are liable for aiding and abetting FIEC's violations of Section 17(a)(1) of the Exchange Act, 15 U.S.C § 78q(a)(1), and Rules 17a-3 and 17a-11, 17 C.F.R. §§ 240.17a-3 and 17a-11, thereunder.

### **RELIEF SOUGHT**

**WHEREFORE**, Plaintiff Commission respectfully requests a Final Judgment:

#### **I.**

Permanently enjoining the Defendants, their agents, servants, employees, attorneys-in-fact, 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 thereunder, 17 C.F.R. § 240.10b-5.

## II.

Permanently enjoining the Defendants, their agents, servants, employees, attorneys-in-fact, 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 aiding and abetting violations of Section 17(a)(1) of the Exchange Act, 15 U.S.C § 78q(a)(1), and Rules 17a-3 and 17a-11, thereunder, 17 C.F.R. §§ 240.17a-3 and 17a-11.

## III.

Ordering the Defendants to disgorge all ill-gotten profits, gains, income and benefits, derived, directly or indirectly, as a result of their violative conduct, plus prejudgment interest on that amount.

## IV.

Ordering each of the Defendants to file with this Court and serve upon the Commission, within thirty business days, or within such extension of time as the Commission agrees, an accounting, verified under oath by each of the Defendants, of:

- (1) All assets, liabilities and property currently held directly or indirectly, by or for their benefit, including but not limited to bank accounts, brokerage accounts, investments, business interests, loans, lines of credit, and real and personal property wherever situated, describing each asset and liability, and its current location and amount;
- (2) All money, property, assets, and other income received by the Defendants, or for their direct or indirect benefit, in or at any time from January 1, 1992 to the date of the accounting, describing the source, amount, disposition and current location of each of the items listed;



- (3) The names and last known addresses of all bailees, debtors, and other persons and entities which are currently holding the assets, funds or property of the Defendants; and
- (4) All assets, funds, securities, real or personal property received by the Defendants, or any other entity controlled by the Defendants, from parties who entered into contracts with the Defendants, or any other entity controlled by the Defendants, concerning the offer and sale of securities, such as Lease Assignments, notes, and bonds, from 1992 to the date of the accounting, and the disposition of such assets, funds, securities, real or personal property.

V.

Ordering the Defendants to pay civil penalties 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), for the violations alleged herein.

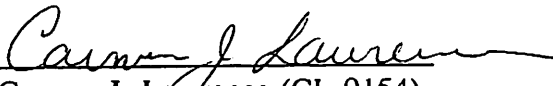
VI.

Granting such other relief as this Court may deem just and proper.

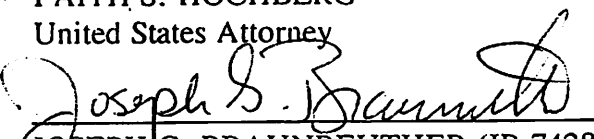
Dated: November 18, 1998 ✓

Respectfully Submitted,

SECURITIES AND EXCHANGE COMMISSION

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