

JUDGE RAKOFF

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

08 CIV 8397

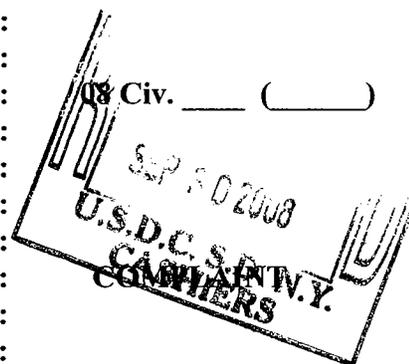
SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

CHRISTOPHER CASTALDO,
DANIEL JAMES GALLAGHER,
FRANK J. ZANGARA,
B.H.I. GROUP, INC.,
CORPORATE COMMUNICATIONS CORP. and
VISION SECURITIES INC.,

Defendants.



Plaintiff Securities and Exchange Commission for its complaint against defendants Christopher Castaldo, Daniel James Gallagher, Frank Zangara, B.H.I. Group, Inc., Corporate Communications Corp. and Vision Securities Inc. alleges as follows:

PRELIMINARY STATEMENT

1. This action arises out of broker-dealer registration, licensing, and reporting violations by Vision Securities, a registered broker-dealer; Gallagher, Vision's de facto chief executive officer; Castaldo, an unregistered individual who acted through Corporate Communications, an unregistered entity; and Zangara, an unregistered person who is and was at

the relevant time subject to a Commission order barring him from engaging in broker-dealer activities.

2. From at least May 2005 until at least February 2007, defendants Castaldo and Corporate Communications unlawfully solicited investors and received transaction-based compensation in connection with three offerings of securities, including one offering conducted under the auspices of Vision Securities. Zangara unlawfully solicited investors and received transaction-based compensation in connection with one of these offerings despite the fact that he was subject to a Commission order barring him from association with a broker-dealer.

3. In about May 2005, Castaldo and Zangara, a former colleague of Castaldo's from Tasin & Company, Inc., began soliciting subscribers of the investment newsletter published by Corporate Communications and others for an offering of securities for an on-line comparison-shopping business. Corporate Communications received commissions on the amount Castaldo raised, and BHI, an entity apparently controlled by Zangara and his wife, received commissions on the amount that Zangara raised.

4. In about September 2005, Gallagher enlisted Castaldo, a former colleague of his at Stratton Oakmont Inc., to assist Gallagher's firm, Vision Securities, in soliciting investors for another offering, even though Gallagher knew that Castaldo and Corporate Communications were not registered as broker-dealers and lacked the requisite licenses. Vision Securities ultimately paid Corporate Communications approximately seventy percent of the commissions it received on the money Castaldo raised for that offering.

5. Defendant Vision Securities also, with the knowledge and substantial assistance of Gallagher, filed numerous Form BD amendments with the Commission, in which it failed to disclose Gallagher's true relationship to, and control of, Vision Securities.

6. From October 2006 to February 2007, independent of Vision Securities and Zangara, Castaldo solicited investors for a third offering of securities, for which Corporate Communications also received commissions.

7. By virtue of the conduct described in this Complaint:

- a. BHI, Corporate Communications, Castaldo and Zangara have engaged in acts, practices, and courses of business that constitute violations of Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a);
- b. Zangara has engaged in acts, practices, and courses of business that constitute violations of Section 15(b)(6)(B)(i), 15 U.S.C. § 78o(b)(6)(B)(i);
- c. Vision Securities has engaged in acts, practices, and courses of business that constitute violations of Sections 15(b)(7) and 17(a) of the Exchange Act, 15 U.S.C. §§ 78o(b)(7), 78q(a), and Rules 15b3-1 and 15b7-1, 17 C.F.R. §§ 240.15b3-1 and 240.15b7-1;
- d. Gallagher and Castaldo are liable pursuant to Section 20(e) of the Exchange Act, 15 U.S.C. § 78t(e), as aiders and abettors of Vision Securities' violations of Section 15(b)(7) of the Exchange Act, 15 U.S.C. § 78o(b)(7), and Rule 15b3-1, 17 C.F.R. § 240.15b3-1;
- e. Gallagher is liable pursuant to Section 20(e) of the Exchange Act, 15 U.S.C. § 78t(e), as an aider and abettor of Vision Securities' violations of Section 17(a) of the Exchange Act, 15 U.S.C. § 78q(a), and Rule 15b7-1, 17 C.F.R. § 240.15b7-1.

JURISDICTION

8. The Commission brings this action pursuant to the authority conferred upon it by Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3), and seeks to restrain and enjoin the defendants from engaging in the acts and practices alleged herein. The Commission also seeks an order (a) commanding defendant Frank Zangara to comply with the prior Commission order barring him from associating with a broker-dealer pursuant to Section 21(e) of the Exchange Act; (b) directing defendants to disgorge the ill-gotten gains received as a result of their violative conduct, plus pre-judgment interest; (c) directing defendants to pay civil penalties pursuant to Section 21A of the Exchange Act; and (d) granting such other relief as the Court deems appropriate.

9. This Court has subject matter jurisdiction over this action pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa. Defendants, directly and indirectly, made use of the means or instruments of transportation or communication in, or the means or instrumentalities of, interstate commerce, or of the mails, in connection with the transactions, acts, practices, and courses of business alleged in this complaint, including in the Southern District of New York.

10. Venue in this District is proper pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa, because acts constituting violations of the law alleged in this Complaint occurred in this District and one or more of the defendants can be found, is an inhabitant of, or transacts business in this District. Issuer A, for which Castaldo and Zangara improperly solicited investors, is located in New York, New York, and certain investors solicited reside or do business within this District.

THE DEFENDANTS

11. **Christopher Castaldo**, age 37, is the president and CEO of Corporate Communications. He resides in Glen Head, New York. In the 1990s, Castaldo was a registered representative of several broker-dealers that were the subject of civil and/or criminal actions based on their boiler-room activities, including Stratton Oakmont, Tasin, Foster Jeffries Co., Inc. and Duke & Co., Inc. Castaldo has been the subject of numerous customer complaints and at least three regulatory actions, pursuant to which he has been barred from working in the securities industry in New Mexico and Georgia and ordered to cease and desist from violating the securities laws in Kansas. In or about March 1998, Castaldo ceased to be registered with a broker-dealer and formed Stock Traders Press.

12. **Corporate Communications Corp.** is an unregistered entity with its office in Glenwood Landing, New York. For about ten years, it has published Stock Traders Press, an on-line subscription-based newsletter featuring defendant Castaldo's stock picks and market analysis. Corporate Communications is wholly owned by Castaldo.

13. **Daniel James Gallagher**, age 43, is and was at all relevant times, the de facto president and an owner of Vision Securities. He resides in Roslyn, New York. He has been associated with Vision Securities since May 2001 and has held the title of secretary since April 2003. In February 2007, Gallagher also assumed the title of president, until becoming chairman of the firm in October 2007. At all relevant times, Gallagher has also been a significant shareholder of GCG Holdings, Inc., the direct owner of Vision Securities, and was the president of GCG until at least June 2006. Gallagher was previously associated with a number of other broker-dealers, including Stratton Oakmont, where he met Castaldo, and D.L. Cromwell Investments, Inc. In 1998, the NASD censured and suspended Gallagher from association with

any NASD member, in any capacity, for a six-month period based on alleged fraudulent conduct while he was at Stratton Oakmont. Gallagher was also named in at least eleven customer complaints and arbitrations. As a result of his disciplinary history and complaints against him, Gallagher has agreed with the NASD and several state securities regulatory authorities, including those of New York, New Jersey, Pennsylvania, Maryland, Florida and Connecticut, to restrict his trading activities and to be subject to heightened supervisory procedures.

14. **Vision Securities Inc.** is a registered broker-dealer and a New York corporation with its principal place of business in Melville, New York. It first registered with the Commission in 1993. Vision Securities is currently, and was at all relevant times, controlled by defendant Gallagher. In October 2006, Vision Securities employed about twelve registered representatives. In March 2007, NASD fined Vision Securities for failure to maintain the required net capital, among other violations. On February 29, 2008, as a result of the firm's failure to maintain the required net capital, the NASD placed Vision Securities under a cease-and-desist order pursuant to which the firm can only take unsolicited orders.¹

15. **Frank J. Zangara**, age 46, owns and controls BHI, an unregistered entity. He resides in Locust Valley, New York. Zangara became a registered representative in 1985 and was associated with broker-dealers Robert Todd Financial Corp. from June 1991 until June 1994 and Tasin from June 1994 until March 2000, where he met Castaldo. He has been the subject of a Commission action and several SRO disciplinary actions. In 2004, the Commission obtained a permanent antifraud injunction against Zangara and an order barring him from associating with a broker-dealer based on his insider trading in securities mentioned in Business Week magazine.

¹ In July 2007, the Financial Industry Regulatory Authority ("FINRA") was created through the consolidation of NASD and the member regulation, enforcement and arbitration functions of the New York Stock Exchange. This Complaint uses the term "NASD" because the conduct at issue occurred before FINRA was created.

See Frank Zangara, Exchange Act Release No. 49805 (June 3, 2004). Under the terms of the Commission order, Zangara has the right to reapply to the Commission or appropriate self-regulatory authority for association with a broker-dealer but has not done so. Zangara was the subject of prior disciplinary action by the New York Stock Exchange and the NASD and has not been a registered representative since 2000.

16. **B.H.I. Group, Inc.** is a New York corporation with its principal place of business in Nassau County, New York. It is owned and controlled by defendant Zangara and his wife. As of January 2004, Zangara was also BHI's president.

OTHER RELEVANT ENTITIES

17. **Issuer A** is a privately-held company with its principal place of business in New York, New York. It provides a web-based comparative shopping service.

18. **Issuer B** is a privately-held technology company with its principal place of business in Buffalo, New York.

19. **Issuer C** is a privately-held corporation with its principal place of business in Tualatin, Oregon, and at one time operated a seasonal tourist excursion train in the State of Washington.

FACTUAL ALLEGATIONS

Castaldo's and Zangara's Solicitation of Investors for Issuer A

20. In 2005, Zangara approached Castaldo, a former colleague at Tasin, about an offering of securities by Issuer A, in which Zangara was a shareholder.

21. Thereafter, from about May 2005 until April 2006, Castaldo called dozens of his subscribers to his on-line newsletter, Stock Traders Press, about the offering of securities by Issuer A. Castaldo told his subscribers that Zangara was raising money for the offering.

Castaldo also vouched for Issuer A and put interested subscribers directly in contact with Zangara.

22. Thereafter, Zangara persuaded at least nine of the Stock Traders Press subscribers to invest in securities of Issuer A. From time to time, the Stock Traders Press subscribers who invested in Issuer A called Castaldo with inquiries about their investment.

23. Castaldo had an agreement with Issuer A that Corporate Communications would receive ten percent of the amount that it raised from investors he referred to Zangara. In fact, after Castaldo raised \$1,919,500 for Issuer A, Issuer A paid Castaldo and Corporate Communications \$191,950, or ten percent. Of that amount, Castaldo received \$25,000 directly and Corporate Communications received the rest.

24. Zangara obtained investments from three other investors, independent of Castaldo, for the offering of securities by Issuer A, and received a ten percent commission on each solicitation. These commissions were characterized as a “finder’s fee” when in fact they represented unlawful commission on his improper solicitation of securities. Thus, on June 20, 2005, Zangara successfully solicited an investment of \$500,000, and on July 5, 2005, Issuer A paid \$50,000, or ten percent, to Zangara’s company, BHI. In August 2005, Zangara successfully solicited two additional investments for a total of \$50,000, and Issuer A paid BHI at least an additional \$5,000, or ten percent.

25. Castaldo, Corporate Communications, Zangara and BHI acted as unregistered broker-dealers by soliciting investments in the offering of securities by Issuer A and receiving commissions from the issuer for their efforts.

**Castaldo's Association with Vision Securities
and Solicitation of Investors for Issuer B**

26. In about August 2005, Castaldo sought to become associated with a registered broker-dealer, Vision Securities, run by his former colleague from Stratton Oakmont, Gallagher. Castaldo sent Gallagher a written proposal that Vision Securities pay him "70% payout on all business I do." Gallagher agreed to those terms.

27. Because Castaldo's Series 7 and 24 licenses had expired, however, Gallagher directed Vision Securities' nominal president and chief compliance officer to write to the NASD on October 7, 2005, requesting that it waive the requirement for Castaldo to re-take the licensing exams. On October 20, 2005, the NASD sent a letter to Vision Securities denying this request.

28. Even though Vision Securities did not obtain a waiver for Castaldo and he remained unlicensed and unregistered, from about October 2005 until about May 2006, working in conjunction with Vision Securities, Castaldo solicited dozens of Stock Traders Press subscribers to invest in an offering of securities by Issuer B.

29. Castaldo made the initial calls to potential investors on his subscription list, vouched for Issuer B and sent potential investors extensive notes he had taken during a road show for the offering of securities by Issuer B. If a subscriber he solicited expressed an interest in participating in the offering, Castaldo gave the person's name and contact information to Gallagher, and Gallagher followed up.

30. Vision Securities and Corporate Communications agreed that Vision would pay Corporate Communications approximately seventy percent of Vision's commissions from the sale of securities of Issuer B to Castaldo's subscribers. The payments to Corporate Communications are consistent with this agreement. From November 2005 through May 2006, at least twenty-five Stock Traders Press subscribers invested in an offering of securities by

Issuer B. Issuer B paid Vision commissions amounting to approximately seven percent of all the money Vision raised for this offering. Vision Securities then paid approximately seventy percent to Corporate Communications.

31. Both Castaldo and Gallagher knew that Castaldo remained unlicensed and unregistered and that his solicitation of investors was improper. To conceal that these payments were in fact illegal commissions, Corporate Communications, at Vision's request, created, and in several cases backdated, invoices seeking payments from Vision for false justifications such as "client lists," "research," "consulting" and miscellaneous other services and expenses. Both Castaldo and Gallagher knowingly provided substantial assistance in making these payments and attempting to conceal their true nature as commissions.

32. Castaldo and Corporate Communications acted as unregistered broker-dealers by soliciting investors for the offering of securities by Issuer B and receiving commissions from the issuer for their efforts.

Castaldo's Solicitation of Investors for Issuer C

33. From October through February 2007, Castaldo solicited Stock Traders Press subscribers for an offering of securities by Issuer C.

34. Castaldo told certain of his subscribers about the investment opportunity, vouched for the merits of the investment and, after investors purchased securities, continued to serve as an intermediary between the investors and Issuer C.

35. Issuer C agreed to pay Castaldo a ten percent commission on the amount Castaldo raised for the offering. Thus, in October 2006, after Castaldo had raised \$149,000 for Issuer C, Issuer C paid Corporate Communications \$14,900, or ten percent, in commissions. Thereafter,

Castaldo raised an additional \$120,000 for Issuer C, but Issuer C appears to have paid slightly less – only an additional \$9,900 (or 8.25%) – for commission on those investments.

36. In February 2007, Castaldo raised funds for Issuer C a second time, in that case to finance the purchase of real estate. Castaldo obtained the full amount sought by Issuer C, \$275,000, from a single investor, and Issuer C then paid CCC another \$19,500 at about the time of the financing.

37. Castaldo and Corporate Communications acted as unregistered broker-dealers by soliciting investors for an offering of securities by Issuer C and receiving commissions from the issuer for their efforts.

Vision Securities' Filing of Inaccurate Form BD Amendments

38. Section 15(b)(1) of the Exchange Act and Rule 15b3-1 require registered broker-dealers to file with the Commission a document called Form BD. Form BD requires broker-dealers to disclose, among other things:

- a. the names of the firm's officers and directors;
- b. the names of any other person who exercises control, directly or indirectly, over the firm's management or policies, through agreement or otherwise;
and
- c. the names of any "control affiliates."

39. Gallagher exercised control over the management and policies of Vision Securities for much or all of the period beginning March 2003 and ending November 2006. Although Vision Securities employed another individual as the nominal president of the firm during that period, that person served as a "front" for Gallagher, and Gallagher directed that person as to such key matters as the hiring and compensation of employees. In addition,

Gallagher was a significant shareholder of Vision Securities' parent company, GCG Holdings, as well as its president.

40. From February 19, 2002 until March 2004, Vision Securities filed numerous Form BD amendments that identified Gallagher as a control person of the firm. Beginning in March 2004, Vision Securities filed amendments to its Form BD, signed by its putative president, removing Gallagher as a control person. Thereafter, from March 2004 through February 2008, Vision Securities filed forty-one amendments to the Form BD, including amendments dated April 27, 2006, June 8, 2006 and July 3, 2006, in which Gallagher should have been, but was not, identified as a control person.

41. These Form BD amendments were inaccurate. Gallagher directed that these Form BD amendments be filed even though he knew his true relationship to, and control of, Vision Securities.

FIRST CLAIM FOR RELIEF

(Against Defendants BHI, Corporate Communications, Castaldo and Zangara for Violations of Section 15(a) of the Exchange Act)

42. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 41, above.

43. Defendants BHI, Corporate Communications, Castaldo and Zangara acted as brokers within the meaning of Section 3(a)(4) of the Exchange Act, 15 U.S.C. §78c(4), and made use of the mails or the means or instrumentality of interstate commerce to effect transactions in, or to induce or attempt to induce the purchase or sale of, any security (other than exempted security or commercial paper, bankers' acceptances, or commercial bills) without being registered with the Commission in accordance with Section 15(b) of the Exchange Act, 15

U.S.C. §78o(b), or without being associated with a broker-dealer as required by Section 15(a) of the Exchange Act.

44. By reasons of the foregoing, BHI, Corporate Communications, Castaldo and Zangara violated, and unless enjoined will continue to violate, Section 15(a) of the Exchange Act 15 U.S.C. § 78o(a).

SECOND CLAIM FOR RELIEF

(Against Zangara for Violations of Section 15(b)(6)(B)(i) of the Exchange Act)

45. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 41 above.

46. Zangara, having been previously barred by the Commission from associating with a broker-dealer, and with such previous bar being in effect, willfully associated with a broker-dealer without the consent of the Commission.

47. By reasons of the foregoing, Zangara violated, and unless enjoined will continue to violate, 15(b)(6)(B)(i) of the Exchange Act, 15 U.S.C. § 78o(b)(6)(B)(i).

THIRD CLAIM FOR RELIEF

**(Against Vision Securities for Violations of Section 15(b)(7)
of the Exchange Act and Rule 15b7-1)**

48. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 41 above.

49. Defendant Vision Securities failed to register Castaldo as a representative of Vision Securities or to ensure Castaldo's registration with the NASD.

50. By reason of the foregoing, defendant Vision Securities violated, and unless enjoined, will continue to violate Section 15(b)(7) of the Exchange Act, 15 U.S.C. §78o(b)(7), and Rule 15b7-1, §240.15b7-1.

FOURTH CLAIM FOR RELIEF

(Against Gallagher and Castaldo for Aiding and Abetting Vision Securities' Violations of Section 15(b)(7) of the Exchange Act and Rule 15b7-1)

51. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 41 and paragraphs 48 through 50 above.

52. Gallagher and Castaldo knowingly provided substantial assistance to Vision Securities' violations of Section 15(b)(7) of the Exchange Act, 15 U.S.C. § 78o(b)(7), and Rule 15b7-1, 17 C.F.R. § 240.15b-7.

53. By reason of the foregoing, defendants Gallagher and Castaldo aided and abetted Vision Securities' violations of, and unless enjoined, will continue to aid and abet the violations of Section 15(b)(7) of the Exchange Act, 15 U.S.C. § 78o(b)(7), and Rule 15b7-1, 17 C.F.R. § 240.15b-7.

FIFTH CLAIM FOR RELIEF

(Against Vision Securities for Violations of Section 17(a) of the Exchange Act and Rule 15b3-1)

54. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 41 above.

55. Defendant Vision Securities failed to disclose in any of the numerous Form BDs the firm filed with the Commission from February 19, 2002 until March 2004, Gallagher's true relationship to, or control of, Vision Securities.

56. By reason of the foregoing, defendant Vision Securities violated, and unless enjoined, will continue to violate Section 17(a) of the Exchange Act, 15 U.S.C. § 78q(a), and Rule 15b7-1, 17 C.F.R. § 240.15b7-1.

SIXTH CLAIM FOR RELIEF

(Against Gallagher for Aiding and Abetting Vision Securities' Violations of Section 17(a) of the Exchange Act and Rule 15b3-1)

57. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 41 and paragraphs 54 through 56 above.

58. Gallagher knowingly provided substantial assistance to Vision Securities' violations of Section 17(a) of the Exchange Act, 15 U.S.C. §78q(a), and Rule 15b7-1, 17 C.F.R. § 240.15b7-1.

59. By reason of the foregoing, defendant Gallagher aided and abetted Vision Securities' violations of, and unless enjoined, will continue to aid and abet the violations of Section 17(a) of the Exchange Act, 15 U.S.C. §78q(a), and Rule 15b7-1, 17 C.F.R. § 240.15b7-1.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

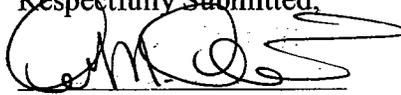
1. Enter a Final Judgment:
 - a. Permanently enjoining:
 - i. Defendants B.H.I. Group, Inc. and Corporate Communications Corp. from violating Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a);
 - ii. Defendant Vision Securities Inc. from violating Sections 15(b)(7) and 17(a) of the Exchange Act, 15 U.S.C. §§ 78o(b)(7) and 78q(a), and Rules 15b3-1 and 15b7-1, 17 C.F.R. §§ 240.15b3-1 and 15b7-1;
 - iii. Defendant Christopher Castaldo from violating Section 15(a) of the Exchange Act, 15 U.S.C. § 78o(a), and from aiding and

- abetting violations of Section 15(b)(7) of the Exchange Act, 15 U.S.C. § 78o(b)(7), and Rule 15b7-1, 17 C.F.R. § 240.15b-7;
- iv. Defendant Daniel James Gallagher from aiding and abetting violations of Sections 15(b)(7) and 17(a) of the Exchange Act, 15 U.S.C. §§ 78o(b)(7) and 78q(a), and Rules 15b3-1 and 15b7-1, 17 C.F.R. §§ 240.15b3-1 and 15b7-1;
 - v. Defendant Frank Zangara from violating Sections 15(a) and 15(b)(6)(B)(i) of the Exchange Act, 15 U.S.C. § 78o(a) and § 78o(b)(6)(B)(i);
- b. commanding Defendant Frank Zangara to comply with the prior Commission order barring him from associating with a broker-dealer;
 - c. directing all the defendants to disgorge their ill-gotten gains from the violations alleged herein, plus prejudgment interest thereon;
 - d. imposing civil monetary penalties against all defendants pursuant to Section 21(d) of the Securities Act, 15 U.S.C. § 77u(d);

2. Grant such other and further relief as the Court deems appropriate.

Dated: September 30, 2008
New York, New York

Respectfully Submitted,



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