

3. By engaging in the conduct described above, and as further described below, Shane violated Sections 5(a), 5(c) and 17(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77e(a), 77e(c), 77q(a)] and Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)], and Rule 10b-5, promulgated thereunder [17 C.F.R. § 240.10b-5].

JURISDICTION

4. The Commission brings this action pursuant to Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)] and Sections 21(d) and 21A of the Exchange Act [15 U.S.C. §§ 78u(d), 78u-1].

5. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Sections 21(e), 21A and 27 of the Exchange Act [15 U.S.C. §§ 78u(e), 78u-1 and 78aa].

6. Venue is proper because acts, transactions, practices, and courses of business constituting the violations alleged herein occurred within the Southern District of New York.

7. In connection with the conduct alleged in this Complaint, Shane directly or indirectly made use of the means or instruments of transportation or communication in interstate commerce, or the means or instrumentalities of interstate commerce, or the mails, or the facilities of a national securities exchange.

DEFENDANT

8. Shane, age 37, resides in New York, New York. At the time of the relevant conduct, Shane was a registered representative of a broker-dealer registered with the

Commission. She primarily acted as an investment adviser, managing the portfolios of, and providing investment advice to, certain hedge funds. Shane had discretionary authority over the hedge fund accounts and was paid a fee based upon the performance of the hedge funds.

OTHER RELEVANT ENTITY

9. CompuDyne, a Nevada corporation, is and was at all relevant times, a public safety and security business based in Hanover, Maryland. As such, CompuDyne provided, among other things, attack protection services, federal security systems, institutional security systems, and services enhancing public safety and justice. CompuDyne's stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act [15 U.S.C. § 78l(g)] and is traded on the NASDAQ under the symbol CDCY.

FACTS

10. Prior to the terrorist attacks on September 11, 2001, CompuDyne had issued approximately 5 million shares of common stock, approximately one million of which were available for public trading (the "public float"). It was a thinly-traded common stock that was consistently priced in the \$8 - \$9 per share range. In the months prior to September 11, 2001, no more than 18,400 shares traded in one day.

11. When securities trading resumed following the terrorist attacks, the amount of trading ("volume") and price of CompuDyne stock increased dramatically. On September 17, 2001, the day that the securities markets reopened, investors traded 258,300 shares of CompuDyne stock, and the stock price at the end of the day was \$13 per share. Between that

date and October 8, 2001, trading in CompuDyne stock was volatile with volumes ranging from 71,500 shares to 749,400 shares, and an average closing price of \$15.11 per share.

**Shane Agreed to Keep Information Concerning
the CompuDyne PIPE Confidential**

12. In September 2001, CompuDyne retained a broker-dealer registered with the Commission to act as financial adviser and underwriter for a PIPE offering (the “placement agent”).

13. A PIPE is a private investment in public equities. In a PIPE transaction, an underwriter or "placement agent" privately places restricted securities of a public company with investors meeting certain criteria ("accredited investors"). Accredited investors enter into a purchase agreement with the public company committing the investors to purchase a certain number of shares at a specified price. The public company agrees, in turn, to file a resale registration statement with the Commission within a specified period so that the investors can resell the shares to the public. The investors do not pay for the shares until the closing of the transaction, which does not occur until shortly before or after the resale registration statement is declared effective.

14. On September 28, 2001, Shane learned from a registered representative of the placement agent that an electronic security company was conducting a PIPE offering. Before the registered representative told her the identity of the company, he required Shane orally to agree that she would keep information about the PIPE offering confidential.

15. Shane orally agreed to keep the information about the PIPE offering confidential.

16. The registered representative then disclosed to Shane that CompuDyne was the company conducting the PIPE offering. He further told Shane general information about the nature of CompuDyne's business and that he anticipated that the shares for the PIPE offering would be priced at a discount to the market price. Shane expressed interest in participating in the offering and requested further information from the placement agent. That same day, the placement agent sent Shane copies of the Confidential Private Placement Memorandum and Purchase Agreement via overnight mail and arranged for her to meet with CompuDyne's management regarding the PIPE offering.

17. The Confidential Private Placement Memorandum sent to Shane stated that the information about the CompuDyne PIPE offering was "strictly confidential." It further warned prospective investors that "the federal securities laws impose restrictions on trading based on information regarding the offering."

18. On October 2, 2001, Shane met with members of CompuDyne management at her office. At the meeting, the participants discussed the fact that the CompuDyne PIPE offering was confidential. After that meeting, Shane notified the placement agent that she was interested in purchasing up to 500,000 shares from the CompuDyne PIPE offering.

19. On October 8, 2001, the placement agent notified Shane that the price for the CompuDyne PIPE shares had been set at \$12 per share and that she had been allocated 475,000 shares. Shane requested that the allocation be split between her personal account and one of the hedge fund accounts that she managed, with each receiving 237,000 shares and 238,000 shares, respectively.

20. That same day, Shane signed the Purchase Agreement for the shares allocated to her personal account and she arranged for the general partner of the hedge fund to sign the Purchase Agreement for the shares allocated to the hedge fund account. She then sent the signature pages to the placement agent by facsimile. By executing the Purchase Agreement, Shane expressly represented and warranted that she “agreed orally . . . to keep confidential all information concerning the private placement” and she agreed to keep “strictly” confidential “the existence and nature of all conversations and presentations, if any, regarding the company and this offering.” She further represented and warranted in the Purchase Agreement that she had “no present intention of distributing any such shares,” and that she understood “that the federal securities laws impose restrictions on trading based on information regarding this offering.”

Information About CompuDyne’s Plan to Offer a PIPE Was Material and Nonpublic

21. Because a PIPE offering increases the supply of stock in the market, it frequently will have a dilutive effect on the value of existing shares.

22. The CompuDyne PIPE offering would likely have and, in fact, did have, a significant dilutive effect on the value of existing shares. Through the PIPE offering, CompuDyne planned to increase the number of shares of common stock available to the public by 2.45 million, an increase to the public float of more than 200%. Moreover, these 2.45 million shares were offered at \$12 per share— a significant discount to \$17.38, which was the price per share of CompuDyne stock at the close of trading on October 8, 2001, the day before the public announcement of the PIPE offering.

23. For the foregoing and other reasons, a reasonable investor would have viewed information about CompuDyne's plan to conduct a PIPE offering and, in particular, the information known to Shane, as being important to his or her investment decision. A reasonable investor also would have viewed this information as having significantly altered the total mix of information made available to the public. Accordingly, this information was material.

24. In fact, the market reacted negatively when CompuDyne disclosed the PIPE offering to the public. On October 9, 2001, at 11:44 a.m., CompuDyne posted a press release on its internet web site announcing the PIPE offering. The price for CompuDyne stock dropped throughout the day to close at \$14.25 per share, with a trading volume of 1,219,400 shares. Thereafter, during the approximately three weeks while the resale registration statement for the PIPE shares was pending before the Commission, the closing prices for CompuDyne stock trended downward to as low as \$12.41.

25. After the stock market closed on October 29, the Commission declared the resale registration statement for the CompuDyne PIPE shares effective, thereby enabling investors in the PIPE to resell their new shares to the public. The next day, on October 30, CompuDyne stock closed at \$12.02 per share with a trading volume of 769,600 shares.

**Shane Traded on the Basis of the Information Provided to
Her Concerning the Planned PIPE Offering.**

26. After learning from the placement agent the price of the PIPE shares and the amount of shares allocated to her, and before the market opened on October 9, Shane began placing orders to sell short CompuDyne stock in both her personal account and in the hedge fund account.

27. “Selling short” is a technique used by investors to, among other things, take advantage of an anticipated decline in the price of a stock. In general, a “short seller” sells shares of stock that he or she does not own, ultimately “covering” the sale with shares that the seller purchases at a later date. The hope is that the stock price will fall so the short seller can purchase the stock to cover the short sale at a lower price.

28. Shane executed her short sales on the basis of her knowledge of the material nonpublic information, in anticipation that the announcement of the PIPE offering would have a negative impact on the price of CompuDyne stock. Specifically, at the time Shane executed her short sales, Shane knew that CompuDyne was conducting a PIPE offering that would increase the number of shares of common stock available to the public by 2.45 million shares. She further knew that she had been allocated 475,000 shares in the PIPE offering at \$12 per share, a price significantly less than the market price of the stock at the time of her short sales.

29. At the time of her short sales, Shane did not borrow, or deliver to the purchaser, the shares of CompuDyne stock that she sold. Rather, she intended to use, and ultimately used, the shares that she obtained in the PIPE offering at \$12 per share to cover the shares that she sold short.

30. By 11:44 a.m. on October 9, 2001, when CompuDyne publicly announced the PIPE offering, Shane had sold short a total of 122,900 shares of CompuDyne stock in both her personal account and the hedge fund account.

31. As a result of her short sales on October 9th prior to the public announcement of the PIPE offering, and by covering her short sales with the shares that she obtained through the

PIPE offering, Shane made a profit of \$148,872 in her personal account and \$147,913 in the hedge fund account, for a total trading profit of \$296,785.

32. Having received material nonpublic information concerning the planned CompuDyne PIPE offering from CompuDyne management and the placement agent and having agreed to maintain that information in confidence, Shane had a duty of trust and confidence to CompuDyne and its shareholders not to trade, or to direct others to trade, in CompuDyne securities.

33. By her conduct as set forth above, Shane breached that duty of trust and confidence.

34. Shane knew or was reckless in not knowing that she made untrue statements and omissions and/or engaged in the devices, schemes, artifices, transactions, acts, practices and courses of business that operated as a fraud and deceit upon other persons, as further described above.

Shane's Unregistered Sales of CompuDyne Stock

35. After the public announcement of the PIPE offering, Shane continued short selling CompuDyne stock in her personal account and the hedge fund account. By the end of the day on October 9, 2001, Shane had sold short a total of 246,800 shares of CompuDyne stock. Shane continued short selling CompuDyne stock until she had sold all of the 475,000 shares that had been allocated to her in the CompuDyne PIPE offering.

36. At the time of her short sales, Shane did not borrow, or deliver to the purchaser, the shares of CompuDyne stock that she sold. Rather, Shane intended to use, and ultimately

used, the shares that she obtained in the PIPE offering at \$12 per share to cover the shares that she had sold short.

37. When Shane executed her short sales of CompuDyne securities, there was no resale registration statement in effect for the PIPE shares and no exemption from registration applied to the sales of those shares.

38. By short selling CompuDyne securities before the effective date of the resale registration statement for the CompuDyne PIPE shares and covering her short sales with the PIPE shares after the resale registration statement became effective on October 29, 2001, Shane effectively sold the shares prior to their registration.

39. As a result of Shane's unregistered sales of securities, Shane reaped a profit of \$356,153. This profit was in addition to the profits that she made from trading on the basis of material, nonpublic information.

FIRST CLAIM FOR RELIEF
Violations of Section 10(b) of the Exchange Act and Rule 10b-5

40. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 39 above, as if the same were fully set forth herein.

41. Shane, by engaging in the conduct described above, directly or indirectly, in connection with the purchase and/or sale of securities, and by use of the means or instrumentalities of interstate commerce, the mails or a national securities exchange, has:

- (a) employed devices, schemes and artifices to defraud;

- (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements in light of the circumstances under which they were made, not misleading; and/or
- (c) engaged in acts, practices or courses of business that operate or would operate as a fraud and deceit upon other persons.

42. By reason of the foregoing, Shane violated 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].

SECOND CLAIM FOR RELIEF
Violations of Section 17(a) of the Securities Act

43. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 42, above, as if the same were fully set forth herein.

44. Shane, by engaging in the conduct described above, in the offer or sale of securities, by the use of means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly:

- (a) employed devices, schemes or artifices to defraud;
- (b) obtained money or property by means of untrue statements of material fact or omissions 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/or
- (c) engaged in transactions, practices, or courses of business which operate or would operate as a fraud or deceit upon the purchaser of securities.

45. By reason of the foregoing, Shane violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

THIRD CLAIM FOR RELIEF
Violations of Sections 5(a) and 5(c) of the Securities Act

46. The Commission realleges and incorporates by reference each and every allegation in paragraphs 1 through 45, above, as if the same were fully set forth herein.

47. Between October 9 and October 24, 2001, Shane sold short CompuDyne securities. Shane intended to cover and, in fact, covered those short sales with the shares of stock that she obtained in the CompuDyne PIPE offering after the Commission declared effective a resale registration statement on October 29, 2001. In effect, Shane sold the CompuDyne shares she obtained from the PIPE offering at the time she executed the short sales. At the time Shane executed the short sales of CompuDyne securities, there was no resale registration statement in effect with respect to the CompuDyne PIPE shares and the sales of those shares were not exempt from registration.

48. By so doing, Shane directly or indirectly, in connection with certain unregistered sales of securities:

- (a) made use of means or instruments of transportation or communication in interstate commerce or of the mails to sell such securities through the use or medium of any prospectus or otherwise;

- (b) carried or caused to be carried through the mails or in interstate commerce, by any means or instruments of transportation, such securities for the purpose of sale and/or for delivery after sale; and/or
- (c) made use of the means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell or offer to buy such securities through the use or medium of any prospectus or otherwise.

49. By reason of the foregoing, Shane violated Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

WHEREFORE, the Commission respectfully requests that this Court:

I.

Issue an order enjoining Shane from any future violations of Sections 5(a), 5(c) and 17(a) of the Securities Act of 1933 [[15 U.S.C. §§ 77e(a) and 77e(c), and 77q(a)] and Section 10(b) of the Securities Exchange Act of 1934 [15 U.S.C. § 78j(b)] and Rule 10b-5 promulgated thereunder [17 C.F.R. § 240.10b-5].

II.

Issue an order requiring Shane to pay disgorgement in the amount of \$652,938 plus prejudgment interest in the amount of \$125,292.

III.

Issue an order requiring Shane to pay a civil penalty in the amount of \$296,785, pursuant to Section 21A of the Exchange Act [15 U.S.C. § 78u-1].

IV.

Retain jurisdiction of this action for purposes of enforcing the Final Judgment and Order.

Respectfully submitted,

Dated: May 18, 2005

s/
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