

**UNITED STATES DISTRICT COURT FOR THE  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

<b>SECURITIES AND EXCHANGE</b>	)	
<b>COMMISSION,</b>	)	
	)	
<b>Plaintiff,</b>	)	
	)	
<b>v.</b>	)	
	)	
<b>REX C. STEFFES, CLIFF M. STEFFES,</b>	)	
<b>REX R. STEFFES, BRET W. STEFFES,</b>	)	
<b>ROBERT J. STEFFES, and W. GARY</b>	)	
<b>GRIFFITHS,</b>	)	
	)	
<b>Defendants.</b>	)	

**Case No.**

**Trial by Jury Demanded**

**COMPLAINT**

Plaintiff, the United States Securities and Exchange Commission (“the Commission”), alleges as follows:

**Summary**

1. This case involves insider trading in the securities of Florida East Coast Industries, Inc. (“FECI”).
2. Between December 2006 and May 2007, Defendants W. Gary Griffiths (“Gary Griffiths”) and his nephew, Cliff M. Steffes, were employed by Florida East Coast Railway, LLC (“FECR”), one of FECI’s wholly-owned subsidiaries. By the third week of March, 2007, both Gary Griffiths and Cliff Steffes knew that FECI was in the process of being acquired by another company. The fact that the company was for sale constituted material nonpublic information.
3. Gary Griffiths and Cliff Steffes violated their obligation of confidentiality to FECI by disclosing the pending acquisition to members of their family. Gary Griffiths and Cliff Steffes disclosed FECI’s pending acquisition to Defendant Rex C. Steffes, who is Cliff’s father

and Gary Griffiths' brother-in-law. Rex C. Steffes informed his brother, Defendant Robert J. Steffes, and three business associates about the pending acquisition. Cliff Steffes also informed his brothers, Defendants Bret and Rex R. Steffes, about the pending acquisition. Finally, Bret and Rex R. Steffes informed their grandfather, William Griffiths, who is Rex C. Steffes' father-in-law and Gary Griffiths' father, about the pending acquisition.

4. Between March 28 and May 7, 2007, Rex C. Steffes, Cliff Steffes, Bret Steffes, Rex R. Steffes, Robert Steffes, William Griffiths and three of Rex C. Steffes' business associates purchased more than \$1.6 million of FECI securities in transactions which differed significantly from their prior securities purchases. As part of this process, Rex C. Steffes provided each of his sons with \$10,000 for the purchase of FECI securities.

5. On May 8, 2007, prior to the opening of trading on the New York Stock Exchange, FECI announced that it had entered into a definitive agreement with Fortress Investment Group LLC ("Fortress") to be acquired in a \$3.5 billion transaction. FECI's stock price closed at \$84.91 per share that day, a nearly 15% increase from its closing price on the prior day.

6. After FECI's acquisition was publicly announced, these individuals realized more than \$1 million in profits from their trading on material nonpublic information. These individuals exploited their personal and family relationships for monetary gain. Their misuse of confidential information gave them an illegal advantage over other traders in the market.

7. By engaging in this conduct, which is described more fully below, Defendants Gary Griffiths, Rex C. Steffes, Cliff Steffes, Rex R. Steffes, Bret Steffes and Robert Steffes violated Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. §78j(b), and Rule 10b-5 thereunder, 17 C.F.R. §240.10b-5.

### **Jurisdiction and Venue**

8. The Commission brings this action pursuant to Sections 21(d) and 21A of the Exchange Act, 15 U.S.C. §§ 78u(d) and 78u-1.

9. The Court has subject matter jurisdiction over this action pursuant to Sections 21(e), 21A and 27 of the Exchange Act, 15 U.S.C. §§ 78u(e), 78u-1 and 78aa.

10. This Court has personal jurisdiction over the Defendants, and venue is proper in this District, because four of the six Defendants reside in this District, and most of the acts, transactions and conduct which constitute the violations alleged in this Complaint occurred within this District.

### **Defendants**

11. W. Gary Griffiths (“Gary Griffiths”) is 57 years-old and resides in Elkton, Florida. Gary Griffiths is the Vice President and Chief Mechanical Officer of FECR. Gary Griffiths’ sister is married to Rex C. Steffes. Gary Griffiths and Rex C. Steffes were high school classmates and have been good friends since the 1970s. Gary Griffiths’ father is William Griffiths.

12. Rex C. Steffes is 58 years-old and resides in Manhattan, Illinois. He has three sons: Cliff, Bret, and Rex R. Steffes. During 2006 and 2007, Rex C. Steffes operated a family farm and rock quarry in Manhattan, Illinois with two of his sons and his brother, Robert J. Steffes.

13. Cliff M. Steffes is 28 years-old and resides in Lisle, Illinois. Between December 2006 and May 2007, Cliff Steffes worked as a trainman for FECR in Jacksonville, Florida.

14. Bret W. Steffes is 26 years-old and resides in Manhattan, Illinois at the home of his father, Rex C. Steffes.

15. Rex R. Steffes is 22 years-old and resides in Manhattan, Illinois at the home of his father, Rex C. Steffes.

16. Robert J. Steffes is 60 years-old and resides in Las Vegas, Nevada. Robert Steffes and Rex C. Steffes are brothers.

#### **Other Relevant Entities**

17. During the period of time at issue in this matter, Florida East Coast Industries, Inc. ("FECI") was headquartered in Jacksonville, Florida. FECI conducted business through two wholly-owned subsidiaries. One subsidiary, Florida East Coast Railway, LLC ("FECR"), operated a regional freight railroad between Jacksonville and Miami, Florida. The other subsidiary, Flagler Development Group, owned, developed and leased commercial real estate. FECI's common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act and was traded on the New York Stock Exchange. On May 8, 2007, FECI announced that it had reached a definitive agreement to be acquired by Iron Horse Acquisition Holding LLC and Iron Horse Acquisition Sub, Inc., which were owned by certain private equity funds affiliated with Fortress Investment Group LLC. The acquisition was completed on July 26, 2007.

18. Fortress Investment Group LLC ("Fortress"), which is headquartered in New York City, is a global alternative investment management firm, and manages private equity funds, hedge funds and credit funds, as well as traditional publicly-traded investments. Fortress' common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act and was traded on the New York Stock Exchange. As of December 31, 2006, Fortress had a total of approximately \$35.1 billion in assets under management through its affiliated funds.

**Relevant Facts**

**A. FECI Is Offered For Sale Through A Targeted Auction Process.**

19. On December 4, 2006, FECI's Board of Directors engaged Morgan Stanley & Co., Inc. ("Morgan Stanley") to sell the company through a targeted auction process: *i.e.*, by soliciting acquisition proposals, or "bids," from interested parties.

20. The fact that FECI was being offered for sale was confidential. In mid-December 2006, Morgan Stanley and FECI's senior management began preparing a confidential information memorandum in connection with the auction process. FECI also began assembling an electronic data room to facilitate the due diligence by prospective bidders.

21. On January 25, 2007, FECI's board of directors met to discuss the draft confidential information memorandum and authorized Morgan Stanley to begin soliciting a group of prospective bidders.

22. Between February 15 and 27, 2007, Morgan Stanley contacted a group of prospective bidders, fifteen of whom executed confidentiality agreements, received the final confidential information memorandum and were given access to the electronic data room. Morgan Stanley also requested that the prospective bidders submit their acquisition proposals by April 12, 2007.

23. Between March 15 and April 3, 2007, at least ten prospective bidders attended separate meetings with FECI management in south Florida. The meetings lasted several hours and included a minibus tour of certain FECI properties, including one of its rail yards. These tours occurred on most of the business days between March 15 and April 3, 2007.

24. By April 13, 2007, FECI had received nine separate acquisition proposals.

25. On April 17, 2007, FECI's board of directors met with Morgan Stanley to review the acquisition proposals. After considering the various bids, the Board decided to pursue the proposal submitted by Fortress. FECI and Fortress subsequently agreed to conduct exclusive negotiations for a two-week period.

26. Between April 19 and May 3, 2007, FECI and Fortress representatives held a number of meetings to discuss the pending acquisition and tour FECI properties.

27. Sometime between April 19 and April 27, 2007, FECI management accompanied Fortress representatives on at least one tour which included the Bowden Rail Yard in Jacksonville, Florida. In addition, executives from both FECI and Fortress took a one-day rail trip from the Bowden Yard to the Hialeah Rail Yard in a special railroad car reserved for visitors.

28. On May 6, 2007, Fortress submitted a definitive offer to purchase FECI, including both of its subsidiaries. Pursuant to that offer, certain investment funds affiliated with Fortress would acquire ownership of FECI in a \$3.5 billion transaction for a payment of \$84 per share. The proposed purchase price was to include the payment of a \$21.50 special dividend. On May 7, 2007, FECI's board of directors unanimously accepted Fortress' offer.

29. FECI announced its merger agreement with Fortress on May 8, 2007, prior to the commencement of trading on the New York Stock Exchange. FECI's stock price closed at \$84.91 per share that day, which was a 14.5% increase from the previous closing price of \$74.13 per share.

**B. Gary Griffiths And Cliff Steffes Were Employed By FECR.**

30. Gary Griffiths was FECR's Vice President and Chief Mechanical Officer. As such, he was responsible for supervising and managing the leasing, maintenance and repair of freight cars and locomotives. His office was located in FECR's headquarters in Jacksonville,

Florida, and he reported directly to FECR's President and Chief Operating Officer.

31. Cliff Steffes was a trainman at FECR's Bowden Rail Yard in Jacksonville, Florida. Cliff Steffes obtained this position through the help of his uncle, Gary Griffiths.

32. In connection with their employment, Gary Griffiths and Cliff Steffes both were subject to FECI's Code of Conduct and were prohibited from trading in FECI securities, or recommending that others purchase FECI securities, if they had knowledge of material information about the company that had not been disclosed publicly. FECI's Code of Conduct specifically provided that information regarding a merger or acquisition may constitute material information.

33. Gary Griffiths signed acknowledgements that he had received and would comply with FECI's Code of Conduct at various times between April 9, 2002 and November 8, 2006. Cliff Steffes signed a similar acknowledgement on August 30, 2004. Accordingly, both Gary Griffiths and Cliff Steffes understood that they were prohibited from trading in FECI securities, or recommending that others purchase or sell FECI securities, based on any material information about the company which had not been publicly disclosed.

**C. Gary Griffiths And Cliff Steffes Learned About The Pending Acquisition Of FECI.**

34. By the end of the third week of March 2007, Gary Griffiths knew that FECI was in the process of being acquired by another company, which constituted material nonpublic information. More specifically:

- (a) in early March 2007, FECR's Chief Financial Officer requested that Gary Griffiths prepare a comprehensive list of all of the locomotives, freight cars, trailers and containers owned by FECR, along with their corresponding valuations, which she had never requested before;

- (b) Gary Griffiths became aware of the unusual number of Hialeah yard tours, which began on March 15, and he believed that the tours were being provided to investment bankers who were considering buying or investing in FECI; and
- (c) shortly after the tours began, yard employees began asking Gary Griffiths whether FECI was being sold and whether their jobs would be affected by any such sale.

35. In addition, between April 19 and April 27, 2007, in anticipation of FECI's pending acquisition by Fortress, Gary Griffiths arranged and monitored the rail trip from FECR's Bowden Rail Yard to the Hialeah Rail Yard for FECI and Fortress executives in a special railroad car reserved for visitors.

36. Finally, Gary Griffiths also had daily interactions with FECR's President and Chief Operating Officer, who knew about and was involved in the entire acquisition process.

37. By the end of the third week of March 2007, Cliff Steffes also knew that FECI was in the process of being acquired by another company, which was material nonpublic information. More specifically:

- (a) as part of the due diligence process, there were an unusual number of daytime tours of FECR's Hialeah Yard involving a tour bus and people dressed in business attire;
- (b) there were regular communications among FECR's yard employees at various locations, and many rail yard employees who had not personally witnessed the tours became aware they were occurring; and
- (c) shortly after the tours began, a number of FECR's rail yard employees began expressing concerns that FECR was being sold, and that their jobs could be affected by any such sale.



38. In addition, FECR's Bowden Rail Yard, where Cliff Steffes worked, was the location of a property tour for Fortress representatives, as well as the departure point for the special railcar trip for FECI and Fortress representatives which occurred sometime between April 19 and April 27.

**D. Cliff Steffes Purchased FECI Call Options Based Upon Material Nonpublic Information.**

39. In April and May 2007, Cliff Steffes made three purchases of FECI call options based on his knowledge of FECI's pending acquisition. More specifically, Cliff Steffes purchased 15 call option contracts for \$2,025 on April 3, 17 call option contracts for \$9,690 on April 19, and 15 call option contracts for \$3,300 on May 1, 2007. All of these call option contracts were to expire in June 2007.

40. These purchases were unusual when compared with Cliff Steffes' prior trading. Before April 2007, Cliff Steffes had never purchased stock options of any kind. In addition, Cliff Steffes had purchased FECI securities only once before, in February 2006. On that occasion, he bought \$6,256 of FECI stock, and sold it around one month later.

41. On April 18, 2007, Cliff Steffes received \$10,000 from his father, Rex C. Steffes, for the purpose of purchasing FECI securities. Cliff Steffes used the money from his father to purchase the April 19 call option contracts. In total, Cliff Steffes invested \$15,015 in FECI call options, which constituted approximately 30% of his 2006 annual income and nearly 100% of his liquid net worth.

42. Cliff Steffes sold all of his FECI call option contracts on May 8, after FECI publicly announced its pending acquisition, for \$66,950. As a result, Cliff Steffes realized \$51,935 in profits, or a 346% gain, from his purchase and sale of FECI call options.

**E. Rex C. Steffes Purchased FECI Securities Based Upon Material Nonpublic Information.**

43. Between March 23 and March 25, 2007, Gary Griffiths visited Rex C. Steffes during a business trip to the Chicago area.

44. Gary Griffiths and Cliff Steffes tipped Rex C. Steffes about the pending acquisition of FECI, and Rex C. Steffes purchased FECI securities based upon that material nonpublic information. More specifically:

- (a) On March 26, 2007, Cliff Steffes placed a 29-minute call from his cell phone to Rex C. Steffes' home. On the evening of March 27, 2007, Rex C. Steffes placed a 21-minute call from his cell phone to Gary Griffiths' cell phone. The next day, on March 28, 2007, Rex C. Steffes purchased 6,500 shares of Florida East Coast stock for \$397,508 in a brokerage account he owned jointly with his wife. Before processing this purchase, the Steffes' broker required Rex C. Steffes and his wife to sign a document in which they acknowledged their intention to maintain a large position in FECI stock despite the broker's recommendation that they reduce the risk level of their portfolio through diversification.
- (b) On Saturday, March 31, 2007, Rex C. Steffes placed a 13-minute call from his cell phone to Gary Griffiths' cell phone. On the very next business day, Monday, April 2, 2007, Rex C. Steffes purchased 7,800 shares of FECI stock for \$485,350 in a brokerage account he owned jointly with his wife. Before processing this purchase, the Steffes' broker required Rex C. Steffes to submit financial statements and tax returns as additional evidence of his total net worth.
- (c) On Saturday, April 14, 2007, Rex C. Steffes placed a 19-minute call from his cell phone to Gary Griffiths' cell phone. On the very next business day, Monday,

April 16, 2007, Rex C. Steffes contacted one of his brokers and attempted to purchase FECI call options, but was informed that he had not completed the requisite paperwork. Rex C. Steffes and his wife signed the required papers that same day. On Tuesday, April 17, 2007, Rex C. Steffes purchased 66 FECI call option contracts for \$48,840 in a brokerage account he owned jointly with his wife.

- (d) That same evening, Rex C. Steffes placed a 25-minute call from his cell phone to Gary Griffiths' office at FECR's headquarters. In addition, Cliff Steffes placed phone calls of 2 minutes and 11 minutes, respectively, from his cell phone to Rex C. Steffes' home. The next day, on April 18, 2007, Rex C. Steffes purchased 34 FECI call option contracts for \$27,200 in a brokerage account he owned jointly with his wife. Rex C. Steffes also gave \$10,000 to each of his sons, Cliff, Bret and Rex R. Steffes to use for the purchase of FECI call options.
- (e) On April 20, 2007, Rex C. Steffes placed a 3-minute call from his cell phone to Gary Griffiths' cell phone. On Saturday, April 21, 2007, Cliff Steffes placed a 39-minute phone call from his cell phone to Rex C. Steffes' home. On the very next business day, Monday, April 23, 2007, Rex C. Steffes purchased 25 FECI call option contracts for \$35,000 in a brokerage account he owned jointly with his wife.
- (f) On the evening of April 25, 2007, Rex C. Steffes placed a 20-minute call from his cell phone and Gary Griffiths' cell phone. On April 26, 2007, Cliff Steffes placed an 18-minute call from his cell phone to Rex C. Steffes' home. On April 27, 2007, Rex C. Steffes purchased 1,500 shares of FECI stock for \$107,775 in a

brokerage account he held jointly with his wife. Before processing that purchase, the Steffes' broker again required Rex C. Steffes and his wife to sign a document in which they acknowledged their intention to maintain a large position in FECI securities despite their broker's recommendation that they reduce the risk level of their portfolio through diversification.

- (g) On April 29, 2007, Rex C. Steffes placed a 2-minute call from his cell phone to Gary Griffiths' cell phone. In addition, Rex C. Steffes placed a 2-minute call from his cell phone to Cliff Steffes' cell phone. On Monday, April 30, 2007, Rex C. Steffes purchased 100 Florida East Coast call option contracts for \$42,000 in a brokerage account he owned jointly with his wife.

45. In total, Rex C. Steffes purchased 15,800 shares of FECI stock and 225 FECI call options, within 33 days, for a total investment of approximately \$1.14 million. All of the FECI call options purchased by Rex C. Steffes were to expire in June 2007.

46. These purchases were unusual when compared with Rex C. Steffes' prior trading. In the three years prior to these trades, Rex C. Steffes' largest position in a single company's securities was less than \$275,000. During that same period of time, Rex C. Steffes had not purchased any stock options.

47. Moreover, in the three years prior to these trades, Rex C. Steffes had purchased FECI securities only one time, in December 2005. On that occasion, Rex C. Steffes and his wife purchased \$8,569 of FECI stock, and sold it around one month later.

48. Rex C. Steffes sold all of his FECI stock and call options on May 8, 2007, after FECI publicly announced its pending acquisition, for approximately \$1.76 million. As a result,

Rex C. Steffes and his wife realized \$618,376 in profits, for a 36% gain in just over one month, from the purchase and sale of FECI securities.

**F. Robert Steffes Purchased FECI Securities Based Upon Material Nonpublic Information.**

49. Between December 2006 and May 2007, Robert Steffes lived in Illinois and worked with his brother, Rex C. Steffes, on the family farm. Rex C. Steffes tipped Robert Steffes about the pending acquisition of FECI, and Robert Steffes purchased FECI securities based upon that material nonpublic information. More specifically:

- (a) On April 2, 2007, Rex C. Steffes placed a 5-minute call from his cell phone to Robert Steffes' cell phone. On April 4, 2007, Robert Steffes purchased 2,000 shares of FECI stock for \$125,564 in a brokerage account he owned jointly with his wife.
- (b) On April 9, 2007, Robert Steffes purchased an additional 1,000 shares of FECI stock for \$64,100 in a brokerage account he owned jointly with his wife.
- (c) Late in the afternoon of April 9, 2007, Rex C. Steffes placed a 7-minute phone call from his cell phone to Robert Steffes' cell phone. On April 12, 2007, Robert Steffes purchased an additional 1,000 shares of FECI stock for \$63,300 in a brokerage account he owned jointly with his wife.
- (d) On April 18, 2007, Rex. C. Steffes placed a 3-minute call between his cell phone and Robert Steffes' cell phone. Later that day, Robert Steffes purchased 1,000 shares of FECI stock for \$66,605 in a brokerage account he owned jointly with his wife.

50. In a period of fourteen days, Robert Steffes purchased 5,000 shares of FECI stock for a total of \$319,569.

51. These purchases were unusual when compared with Robert Steffes' prior trading. In the previous three years, Robert Steffes had not purchased any FECI securities. In addition, during the previous three years Robert Steffes had engaged in fewer than five securities trades, and his largest holding of a single company's stock amounted to less than \$50,000.

52. Robert Steffes sold his FECI securities on May 9, 2007, for \$421,050. Accordingly, Robert Steffes and his wife received \$101,481 in profits, or a gain of 32% within five weeks, from their purchase and sale of FECI securities.

**G. Three Business Associates of Rex C. Steffes Purchased FECI Securities Based Upon Material Nonpublic Information.**

53. Rex C. Steffes tipped three of his business associates about the pending acquisition of FECI. One of these individuals ("Associate A") is a friend of Rex C. Steffes, and also is an attorney and has performed legal work for him. The second individual ("Associate B") also is an attorney who has performed legal work for Rex C. Steffes. The third individual ("Associate C") manages a restaurant frequented by Rex C. Steffes, and the two men have discussed other business opportunities.

54. Each of the foregoing three individuals purchased FECI securities based upon material nonpublic information provided to them by Rex C. Steffes. More specifically:

- (a) On or about 10:30 a.m. on May 7, 2007, Rex C. Steffes placed a 7-minute telephone call from his home to Associate A's business. Just over an hour later, Associate A bought 10 FECI call option contracts for \$4,200. Associate A had never purchased FECI securities before, had not traded securities in nearly a year, and had not invested in stock options during the prior seven years. Associate A sold his FECI call options on May 8, 2007, after the company publicly announced the pending acquisition for \$9,500. As a result, Associate A received \$5,300 in

profits, or a gain of 126% within two days, from his purchase and sale of FECI securities.

- (b) On April 3, 2007, Rex C. Steffes placed two one-minute telephone calls from his cell phone to a cell phone registered to Associate B's business. A few hours later, Associate B purchased 300 shares of FECI stock for \$19,056 in an account for the defined benefit pension plan connected with his business. The following evening, Associate B purchased an additional 525 shares of FECI stock for \$32,812 in three different accounts in which he had trading authority: *i.e.*, 300 shares in an account held in the name of his wife, 100 shares in an account for the defined benefit pension plan connected with his business, and 125 shares in an account held in the name of a profit sharing plan connected to his business. On May 1, 2007, Rex C. Steffes called Associate B again, and Associate B purchased 100 shares of FECI stock for \$7,050 in an account held in the name of his wife. Associate B sold all of the FECI securities he had purchased on May 8, 2007, after the company's announcement of its pending acquisition for a total of \$77,725. As a result, Associate B received \$18,807 in profits, in just over one month, from the purchase and sale of FECI securities.
- (c) On March 28, 2007, Rex C. Steffes placed a 3-minute telephone call from his cell phone to the restaurant managed by Associate C. On March 30, 2007, Associate C purchased 200 shares of FECI stock in a brokerage account owned by his father for \$12,518. When the acquisition of FECI was finalized in late July 2007, Associate C's father realized a gain of \$16,800. As a result, Associate C's father realized a profit of \$4,282 from the purchase of FECI securities.

**G. Bret and Rex R. Steffes Purchased FECI Securities Based Upon Material Nonpublic Information.**

55. Cliff Steffes tipped his brothers, Bret and Rex R. Steffes, about the pending acquisition of FECI. In addition, Rex C. Steffes tipped his sons, Bret and Rex R. Steffes, about the pending acquisition of FECI and provided them with funds to purchase FECI securities. Bret and Rex R. Steffes purchased FECI securities based upon that material nonpublic information.

More specifically:

- (a) On March 29, 2007, Rex R. Steffes placed a 14-minute call from his cell phone to Cliff Steffes' cell phone. Later that same day, Bret Steffes purchased 50 shares of FECI stock for \$3,073, and Rex R. Steffes purchased 60 shares of FECI stock for \$3,685.
- (b) On Monday, April 2, 2007, Rex R. Steffes placed an 8-minute call from his cell phone to Cliff Steffes' cell phone. Later that same day, Bret and Rex R. Steffes sold FECI stock and used the proceeds to purchase FECI call options. Bret Steffes purchased 50 FECI call option contracts for \$6,350, and Rex R. Steffes purchased 50 FECI call option contracts for \$5,325.
- (c) On April 18, 2007, Rex C. Steffes provided Bret and Rex R. Steffes with \$10,000 each for the purpose of purchasing FECI securities. Bret and Rex R. Steffes subsequently used the money they received from their father to pay for FECI call option contracts.
- (d) On April 19, 2007, Bret Steffes placed a 10-minute call from his cell phone to Cliff Steffes' cell phone. That same day, Bret Steffes purchased 17 FECI call options for \$9,520, and Rex R. Steffes purchased 17 FECI call options for \$9,690.



(e) Late at night on April 30, 2007, Rex R. Steffes placed a 10-minute call from his cell phone to Cliff Steffes' cell phone. The next day, Bret and Rex R. Steffes each purchased 45 FECI call option contracts for \$12,075. In order to pay for their purchases, Bret and Rex R. Steffes each sold 17 of the FECI call option contracts they previously had purchased, and Rex R. Steffes also sold his remaining shares of FECI stock.

56. Bret Steffes purchased 60 shares of FECI stock and 112 FECI call options between March 29 and May 1, 2007 for a total investment of \$30,775. All of the call option contracts purchased by Bret Steffes were to expire in June 2007.

57. These purchases were unusual when compared to Bret Steffes' prior trading. Prior to March 2007, Bret Steffes' largest holding of a single company's securities was less than \$9,000. In addition, Bret Steffes had only purchased FECI securities once before, in December 2005. On that occasion, he bought approximately \$2,167 of FECI stock and sold it approximately one month later.

58. Rex R. Steffes purchased 50 shares of FECI stock and 112 FECI call options between March 29 and May 1, 2007 for at total investment of \$31,018. All of the call option contracts purchased by Rex R. Steffes were to expire in June 2007.

59. These purchases were unusual when compared to Rex R. Steffes' prior trading. Prior to March 2007, Rex R. Steffes' largest holding of a single company's securities was less than \$3,000. In addition, Rex R. Steffes had purchased securities on less than five occasions, and had only purchased stock options once before, when he purchased five option contracts. Before March of 2007, Rex R. Steffes had never purchased FECI securities.

60. In addition, Bret Steffes invested more than his 2006 annual income and nearly all of his liquid net worth, including the \$10,000 he received from his father, in FECI securities.

61. Similarly, Rex R. Steffes invested more than his 2006 annual income and nearly all of his liquid net worth, including the \$10,000 he received from his father, in FECI stock and call option contracts.

62. Bret and Rex R. Steffes each sold 95 FECI call option contracts on May 8, 2007, after the company publicly announced the pending acquisition, and each received \$120,850. Bret Steffes received \$101,825 in profits (or a gain of 331%), and Rex R. Steffes received \$103,450 in profits (or a gain of 334%), from their purchase and sale of FECI call options.

**H. William Griffiths Purchased FECI Securities Based Upon Material Nonpublic Information.**

63. Bret and Rex R. Steffes tipped their grandfather, William Griffiths, about the pending acquisition of FECI, and William Griffiths purchased FECI securities based on that material nonpublic information. More specifically:

- (a) In January 2007, William Griffiths owned 300 shares of FECI stock. On March 20, 2007, William Griffiths sold all 300 shares of his FECI stock for \$17,379 because he believed the stock was declining in price.
- (b) After visiting the Steffes' home, and discussing his recent sale of FECI stock with Bret and Rex R. Steffes, William Griffiths changed his mind. On Thursday, March 29, 2007, William Griffiths attempted to purchase 300 shares FECI stock using a limit order set at \$59 per share, which was more than a dollar higher than the price he had received for selling his stock. However, William Griffiths' broker was unable to locate any FECI securities at or below the limit order price.

- (c) On the morning of Monday, April 2, 2007, William Griffiths changed his limit order to a market order and purchased 300 shares of FECI stock for \$18,885, or \$62.95 per share. William Griffiths paid \$1,496 more to purchase 300 shares of FECI stock on April 2, 2007 than he had received for selling the 300 shares of FECI less than two weeks earlier. William Griffiths sold all 300 shares of FECI stock on May 8, 2007 after the company publicly announced the pending acquisition for \$25,206. As a result, William Griffiths received \$6,321 in profits, or a gain of 33%, from his purchase and sale of FECI securities.

**Count I**

**Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder  
(Against All Defendants)**

64. The Commission incorporates by reference the allegations in paragraphs 1 - 63 as though fully set forth herein.

65. Gary Griffiths knew, or was reckless in not knowing, that information regarding the pending acquisition of FECI was confidential, material and nonpublic. Gary Griffiths breached the fiduciary duty of trust and confidence which he owed to FECI by disclosing material nonpublic information to Rex C. Steffes, whom he either knew, or was reckless in not knowing, would purchase FECI securities and recommend that others purchase FECI securities, on the basis of that information. Gary Griffiths also received a personal benefit from his disclosures.

66. Cliff Steffes knew, or was reckless in not knowing, that information regarding the pending acquisition of FECI was confidential, material and nonpublic. Cliff Steffes breached the duty of trust and confidence which he owed to FECI by: (a) purchasing FECI securities on the basis of material nonpublic information; and (b) disclosing material nonpublic information to

Rex C. Steffes, Bret Steffes and Rex R. Steffes, whom he knew, or was reckless in not knowing, would purchase FECI securities and recommend that others purchase FECI securities, on the basis of that information. Cliff Steffes also received a personal benefit from his disclosures.

67. Rex C. Steffes knew, or was reckless in not knowing, that the information regarding the pending acquisition of FECI was confidential, material and was conveyed him in violation of a relationship of trust. On the basis of this information, Rex C. Steffes purchased FECI securities and recommended the purchase of FECI securities to Bret Steffes, Rex R. Steffes, Robert Steffes and three business associates. Rex C. Steffes also received a personal benefit from his disclosures.

68. Bret Steffes and Rex R. Steffes knew, or were reckless in not knowing, that the information regarding the pending acquisition of FECI was confidential, material and was conveyed to them in violation of a relationship of trust. On the basis of this information, Bret Steffes and Rex R. Steffes purchased FECI securities and recommended the purchase of Florida East Coast securities to their grandfather, William Griffiths. Bret and Rex R. Steffes also received a personal benefit from their disclosures.

69. Robert Steffes knew, or was reckless in not knowing, that the information regarding the pending acquisition of FECI was confidential, material and was conveyed to him in violation of a relationship of trust. On the basis of this material nonpublic information, Robert Steffes purchased FECI securities.

70. By their conduct described above, all of the Defendants, in connection with the purchase or sale of securities, and by the use of means or instrumentalities of interstate commerce or of the mails, directly or indirectly: (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of material fact, or omitted to state material facts necessary

in order to make statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices or courses of business which operated as a fraud or deceit upon other persons.

71. Defendants W. Gary Griffiths, Rex C. Steffes, Cliff Steffes, Bret Steffes, Rex R. Steffes and Robert Steffes all acted with *scienter* by trading and/or disclosing confidential information regarding FECI's pending acquisition when they either knew, or were reckless in not knowing, that they were doing so in breach of a duty not to trade on that information or disclose that information to others.

72. By reason of the foregoing, all of the Defendants have violated and, unless enjoined, will continue to violate 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.

**PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that the Court:

**I.**

Permanently enjoin Defendants W. Gary Griffiths, Rex C. Steffes, Cliff M. Steffes, Bret W. Steffes, Rex R. Steffes and Robert J. Steffes from violating 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.**

Order Defendants W. Gary Griffiths, Rex C. Steffes, Cliff M. Steffes, Bret W. Steffes, Rex R. Steffes and Robert J. Steffes, jointly and severally, to disgorge the ill-gotten gains from each trade in Florida East Coast securities which either they, or the persons they tipped, entered into on the basis of material nonpublic information, including prejudgment interest thereon;

**III.**

Order Defendants W. Gary Griffiths, Rex C. Steffes, Cliff M. Steffes, Bret W. Steffes, Rex R. Steffes and Robert J. Steffes to pay civil penalties pursuant to Section 21A of the Exchange Act, 15 U.S.C. §78u-1; and

**IV.**

Grant such other relief as the Court deems appropriate.

**JURY DEMAND**

Pursuant to Rule 39 of the Federal Rules of Civil Procedure, Plaintiff demands that this case be tried to a jury.

Respectfully submitted,

*/s/Robert M. Moyer*

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