



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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IN THE MATTER OF THE *SECURITIES ACT*

R.S.O. 1990, c. S.5, AS AMENDED

– AND –

**IN THE MATTER OF
STANKO JOSEPH GRMOVSEK AND GIL I. CORNBLUM**

**STATEMENT OF ALLEGATIONS
OF STAFF OF THE ONTARIO SECURITIES COMMISSION**

Staff of the Ontario Securities Commission (the “Commission”) make the following allegations:

I. OVERVIEW

1. Gil I. Cornblum (“Cornblum”) and Stanko Joseph Grmovsek (“Grmovsek”) collectively (the “Respondents”) engaged in an illegal insider trading scheme over the course of a 14 year period from 1994-2008 (the “Relevant Period”). Although the scheme operated throughout the Relevant Period, the trading generally occurred in two time periods: September 1996 to August 2000 and May 2004 to April 2008.

2. Shortly after completing law school in 1994, the Respondents commenced operating the scheme in which Cornblum would seek out and obtain material, non-public information concerning pending corporate transactions that he would communicate to Grmovsek, for sole the purpose of facilitating the execution of trades in securities of those corporate transactions by Grmovsek for a profit.

3. The Respondents’ scheme contemplated an equal distribution of the illicit trading profits

between Grmovsek and Cornblum at some future date.

4. At all times during the Relevant Period, Cornblum sought out and became possessed of material, non-public information in his capacity as a lawyer.

5. Throughout the Relevant Period, Grmovsek directed the illegal trading in brokerage accounts located in: (i) the Bahamas under corporate names; (ii) Ontario under variations of his own name and a Grmovsek Family Trust account; and (iii) Ontario which were in the names of family and friends but over which he obtained trading authorization.

6. Throughout the Relevant Period, the Respondents engaged in a course of conduct to disguise their illegal activity and avoid detection from regulatory authorities and law enforcement. This conduct included, but was not limited to:

- (i) using numerous brokerage accounts opened in corporate names in the Bahamas;
- (ii) using only verbal trading instructions for brokerage accounts located in the Bahamas;
- (iii) maintaining the illicit trading profits in a number of brokerage accounts opened in corporate names in the Bahamas and the Grand Cayman Islands;
- (iv) developing and participating in covert methods of repatriating illicit profits into Canada;
- (v) engaging in trading patterns with respect to the securities so as to minimize the possibility of detection; and
- (vi) extensive use of pay telephones and calling cards to facilitate communication of material, non-public information and discuss potential trading strategies integral to the scheme.

7. In total, Cornblum tipped Grmovsek of material, non-public information and Grmovsek traded while in possession of that material, non-public information in advance of news releases related to forty-six (46) corporate transactions involving securities publicly listed in Canada and

the United States. In some cases the securities were cross-listed in both countries.

8. Collectively, the illegal insider trading yielded profits of approximately \$9,000,000 USD. The majority of the profits were generated by trades exchanges located in the United States.

II. THE RESPONDENTS

9. Cornblum is a resident of Toronto, Ontario and during the Relevant Period was an articling student or practicing lawyer and was a member of the Law Society of Upper Canada and the New York State Bar. During the Relevant Period, Cornblum worked at a number of law firms, including by not limited to: Sullivan & Cromwell, LLP, New York; Schulte Roth & Zabel, LLP, New York; and Dorsey, Whitney, LLP, Toronto (the "Law Firms").

10. Commencing in 2001, Cornblum was an associate lawyer and subsequently a partner in the Mergers & Acquisitions/Corporate Practice Groups at Dorsey & Whitney, LLP. In April 2008, as a result of regulatory investigations into alleged illegal insider trading, Cornblum was terminated from Dorsey & Whitney, LLP.

11. Grmovsek was a resident of Woodbridge, Ontario during the Relevant Period. Grmovsek articulated in Ontario was called to the bar in 1995 and practiced as a securities lawyer and was a member of the Law Society of Upper Canada until May 1, 1997 when he ceased practicing law and engaged in the illegal insider trading scheme full-time.

12. The Respondents met and became friends in law school and remained close personal friends thereafter. Throughout the Relevant Period, the Respondents were in regular and frequent contact.

13. The Respondents have never been registered in any capacity with the Commission.

III. TIPPING

14. During the Relevant Period, Cornblum actively sought out and acquired material, non-public information about potential corporate transactions through his role as an articling student or as a lawyer at the Law Firms.

15. The information was primarily obtained in one of five ways:

- (i) as counsel to issuers on pending corporate transactions;
- (ii) through conversations with colleagues/other counsel on potential corporate transactions;
- (iii) communications with external counsel conducting conflict checks regarding potential corporate transactions;
- (iv) using temporary passwords for night-time secretarial staff to conduct searches on computer databases at the Law Firms for material, non-public information related to pending transactions for which he did not personally serve as counsel; and
- (v) early morning searches through the hallways, photocopy rooms, fax machines and files of colleagues at the Law Firms for documents revealing material, non-public information related to pending transactions for which he did not personally serve as counsel.

16. Cornblum acquired material, non-public information involving all of the following corporate transactions and pursuant to subsections 76(5)(b) and (e) of the *Securities Act*, R.S.O. 1990, c.S.5, as amended (the “Act”) Cornblum became a person in a special relationship with the reporting issuers (the “Reporting Issuers”) involved in the following corporate transactions (the “Corporate Transactions”) ¹:

- (a) acquisition of Office Depot by Staples, announced September 4, 1996 (NYSE);
- (b) acquisition of Great Western Financial Corp. by H.F. Ahmanson & Company, announced February 17, 1998 (NYSE);
- (c) acquisition of North American Mortgage Company by Dime Bancorp Inc.,

¹ The exchange(s) on which the “target” issuer was publicly listed at the time of the transaction, is enclosed in brackets following each transaction.

- announced June 23, 1997 (NYSE);
- (d) acquisition of Equitable of Iowa Companies by ING Groep N.V., announced July 8, 1997 (NYSE);
 - (e) acquisition of Nellcor Puritan Bennett Inc. by Mallinckrodt Inc., announced July 23, 1997 (NASDAQ);
 - (f) acquisition of Corestates Financial Corp. by First Union Corporation, announced November 18, 1997 (NYSE);
 - (g) acquisition of Piper Jaffray Companies Inc. by U.S. Bancorp, announced December 15, 1997 (NYSE);
 - (h) acquisition of Money Store Inc. by First Union Corporation, announced March 4, 1998 (NYSE);
 - (i) acquisition of Alumax Inc. by Alcoa Inc., announced March 9, 1998 (TSX/NYSE);
 - (j) acquisition of H.F. Ahmanson & Company by Washington Mutual Inc., announced March 17, 1998 (NYSE);
 - (k) acquisition of Beneficial Company by Household International Inc. announced April 7, 1998 (NYSE);
 - (l) acquisition of Ameritech Corporation by SBC Communications Inc., announced May 11, 1998 (NYSE);
 - (m) acquisition of Humana Inc. by United HealthGroup Inc., announced May 28, 1998 (NYSE);
 - (n) acquisition of Ciena Corporation by Tellabs Inc., announced June 3, 1998 (NASDAQ);
 - (o) acquisition of Wells Fargo & Company by Norwest Corporation, announced June 8, 1998 (NYSE);
 - (p) acquisition of Newcourt Credit by CIT announced on March 8, 1999 (TSX/NYSE);

- (q) acquisition of Smallworldwide by GE Power Systems, announced August 17, 2000 (NASDAQ);
- (r) acquisition of Wheaton River Minerals Ltd. by Goldcorp Inc., announced May 28, 2004 (TSX/AMEX);
- (s) buy-back of Yamana Gold Inc. warrants by Yamana Gold Inc., announced June 17, 2005 (TSX/NYSE);
- (t) merger of Star Point Energy Trust and Acclaim Energy Trust, announced September 19, 2005 (TSX/AMEX);
- (u) acquisition of Virginia Gold Mines by Goldcorp Inc., announced December 5, 2005 (TSX/NYSE);
- (v) acquisition of RNC Gold by Yamana Gold Inc., announced December 4, 2005 (TSX/NYSE);
- (w) acquisition of Desert Sun Mining Inc. by Yamana Gold Inc., announced February 22, 2006 (TSX/NYSE);
- (x) acquisition of Weda Bay by Eramet SA, announced March 15, 2006 (TSX);
- (y) acquisition of Mexgold Resources Inc. by Gammon Lake, announced May 29, 2006 (TSX/AMEX);
- (z) acquisition of Viceroy Exploration Ltd. by Yamana Gold Inc., announced August 16, 2006 (TSX/NYSE);
- (aa) merger of Goldcorp Inc. and Glamis Gold Ltd., announced August 31, 2006 (TSX/NYSE);
- (bb) merger of IAMGOLD Corporation and Cambior Inc., announced September 14, 2006 (TSX/AMEX);
- (cc) merger of Denison Mines Corp. and International Uranium Corporation, announced September 18, 2006 (TSX/AMEX);
- (dd) Goldcorp Inc. sale of shares in Wheaton River Minerals Ltd., announced December 7, 2006 (TSX/AMEX);

- (ee) merger of Direct General Corporation and Fremont Partners and Texas Pacific Group, announced December 5, 2006 (NASDAQ);
- (ff) Eldorado Gold Corporation potential merger with Centerra Gold Corporation, announced February 16, 2007 (TSX/AMEX);
- (gg) acquisition of Gateway Casinos Income Fund by New World Gaming Partners Ltd., announced April 4, 2007 (TSX);
- (hh) acquisition proposal of Liquor Barn Income Fund by Liquor Stores Income Fund, announced April 10, 2007 (TSX-V);
- (ii) resource restatement by Blue Pearl Mining Ltd., announced April 16, 2007 (TSX/NYSE);
- (jj) acquisition of Palmarejo Silver by Coeur d'Alene Mines, announced May 3, 2007 (TSX-V);
- (kk) acquisition of Energy Metals Corporation by Uranium One Inc., announced June 4, 2007 (TSX/NSYE);
- (ll) acquisition of Peru Copper, Inc. by Aluminum Corporation of China Ltd., announced June 14, 2007 (TSX/AMEX);
- (mm) acquisition of Meridian Gold Inc. by Yamana Gold Inc. and Northern Orion Resources Inc., announced June 27, 2007 (TSX/NYSE);
- (nn) acquisition of Meridian Gold Inc. by Yamana Gold Inc., announced August 14, 2007 (TSX/NYSE);
- (oo) acquisition of Miramar Mining Corporation by Newmont Mining Corporation, announced October 9, 2007 (TSX/NYSE);
- (pp) acquisition of Arizona Star by Barrick Gold Corporation, announced October 29, 2007 (TSX-V/NYSE);
- (qq) settlement discussions between NovaGold Resources and Barrick Gold Corporation, announced November 8, 2007 (TSX/NYSE/AMEX);

- (rr) acquisition of A.S.V., Inc. by Terex Corporation, announced January 13, 2008 (NASDAQ);
- (ss) acquisition of Possis Medical, Inc. by MEDRAD, Inc., announced February 11, 2008 (NASDAQ); and
- (tt) acquisition of WP Stewart by Arrow Capital Management, announced May 21, 2008 (NYSE).

17. Cornblum owed a fiduciary duty and a strict duty of confidentiality and loyalty to the clients of the Law Firms. Pursuant to subsection 76(2) of the Act, Cornblum was also prohibited from tipping others with material information related to any of the Reporting Issuers prior to that information had been generally disclosed.

18. For each of the Corporate Transactions, Cornblum informed Grmovsek of material information related to the Reporting Issuers prior to that information having been generally disclosed. For each of the Corporate Transactions, the material, non-public information was the pending merger or acquisition transaction.

19. Cornblum understood and intended that Grmovsek would execute trades based on this material, non-public information and expected to, and did, share in the profits of the resulting trades.

20. In certain instances, Cornblum would provide instructions to Grmovsek regarding the nature and quantum of proposed trading in certain securities, in an effort to avoid detection by regulatory authorities.

IV. INSIDER TRADING

21. Throughout the Relevant Period, Grmovsek obtained material information related to the pending Corporate Transactions from Cornblum prior to the information having been generally disclosed. Grmovsek knew that Cornblum obtained the information in his capacity as a lawyer and that Cornblum stood in a special relationship to each of the Reporting Issuers.

22. By virtue of subsection 76(5)(e) of the Act, Grmovsek became a person in a special relationship with each of the Reporting Issuers and was accordingly prohibited from trading securities of the Reporting Issuers while in possession of material non-public information involving those Reporting Issuers.

23. From 1994 to 2008, with knowledge of material, non-public information supplied by Cornblum, Grmovsek traded securities in advance of forty-six (46) corporate transactions, detailed as the Corporate Transactions in paragraph 16 above, contrary to subsection 76(1) of the Act.

24. Throughout the Relevant Period, Grmovsek traded the securities using brokerage accounts in Ontario established in variations of his own name and a Grmovsek Family Trust account as well as brokerage accounts located in the Bahamas in corporate names. Grmovsek also traded through the following brokerage accounts in Ontario belonging to family and friends over which he obtained trading authorization (the “Family and Friends Accounts”). The account-holders of the Family and Friends Accounts were not aware of the illegal insider trading scheme, nor were they aware that Grmovsek was trading securities on their behalf while in possession of material, non-public information. Some of the account-holders of the Friends and Family Accounts paid Grmovsek a percentage of the profits generated by the illegal trading.

Account Holder	Relationship to Grmovsek
Stan J. Grmovsek, S. Joseph Grmovsek, Stan Grmovsek, Joseph S. Grmovsek, Grmovsek Family Trust	Himself
Joseph and Paula Grmovsek	Parents
Marian Grmovsek-Gatzos and Alexander Gatzos	Sister and Brother-in-Law
Chantal Bernard	Former Spouse
George and Vangie Gatzos	Parents of Alexander Gatzos
Christopher Gatzopoulos	Brother of Alexander Gatzos
Julio DiGirolamo	Personal Friend

Account Holder	Relationship to Grmovsek
Alba DiGirolamo	Spouse of Julio DiGirolamo
Peter Kelly	Friend and Former Neighbour

25. Following the public announcement, the securities of the Reporting Issuers and the securities of the Issuers involved in the Corporate Transactions often increased dramatically in value. Shortly thereafter, Grmovsek sold most of the securities to realize a profit and obtained an unrealized profit for the remaining securities which he held, for a total gross profit over the Relevant Period of approximately \$9,000,000 USD.

26. The illicit profits were largely held in off-shore accounts. In late 1999, Cornblum and Grmovsek each repatriated \$600,000 CDN of illicit trading profits from a brokerage account in the Bahamas that was used to purchase their respective matrimonial homes in the Greater Toronto Area. In early 2000, Cornblum received \$2,700,000 CDN in illicit trading profits from a brokerage account in the Bahamas that was subsequently transferred to a brokerage account under a corporate name in the Grand Cayman Islands.

V. CONDUCT CONTRARY TO ONTARIO SECURITIES LAW AND THE PUBLIC INTEREST

27. By informing Grmovsek of material, non-public information related to the Reporting Issuers involved in the Corporate Transactions, prior to that information being generally disclosed, Cornblum engaged in unlawful tipping, contrary subsection 76(2) of the Act, and engaged in conduct contrary to the public interest.

28. By informing Grmovsek of material, non-public information related to the issuers involved in the Corporate Transactions prior to that information being generally disclosed, Cornblum engaged in conduct contrary to the public interest.

29. By trading securities of the Reporting Issuers with knowledge of material information obtained from Cornblum that had not generally been disclosed, Grmovsek engaged in illegal insider trading, contrary to subsection 76(1) of the Act, and engaged in conduct contrary to the public interest.

30. By trading securities of the Issuers involved in the Corporate Transactions with knowledge of material information obtained from Cornblum that had not generally been disclosed, Grmovsek engaged conduct contrary to the public interest.

31. Such additional allegations as Staff may advise and the Commission may permit.

Dated at Toronto this 23rd day of October, 2009.