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Two execs guilty in Suprema shell game

Jury doesn't buy claim cheesemaker's top officers knew nothing of phony sales, product fraud

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The mantra espoused by defense attorneys for two former executives of Suprema Specialties was simple and straightforward: They didn't know.

They didn't know the cheese company's meteoric sales growth was based on phantom business. They didn't know one of their employees was relabeling millions of pounds of imitation cheese as higher-priced, all-natural product. They didn't know about conspirators in their midst.

Yesterday, though, a federal jury decided they did know.

Jurors in Newark deliberated seven days before convicting Mark Cocchiola, 51, and Steve Venechanos, 48, of all counts against them. Cocchiola, who founded Suprema and was its chief executive, sat stoically as the jury foreman read 38 convictions on counts ranging from conspiracy to bank and securities fraud.

Venechanos, the former chief financial officer, slumped back in his chair after the first "guilty" verdict was announced as if he had been punched in the chest. The jury reached its decision about noon yesterday, despite telling U.S. District Court Judge Stanley Chesler on Friday they were "hopelessly deadlocked."

The convictions mark the end of a case that exposed pervasive corruption that seethed beneath the glossy success of a small public cheese company that wowed Wall Street with spectacular sales and profit. In reality, prosecutors said, Suprema was a business rife with well-concealed fraud, kickbacks and mislabeled cheese.

"These were corrupt businessmen," U.S. Attorney Christopher Christie said. "They bankrupted a company that was in reality a myth built on phony sales. They were driven by unbridled greed without a thought to the investors they charmed with their illusion of Suprema's success."

In the seven years before Suprema collapsed in bankruptcy in February 2002, the cheese company with headquarters in Paterson inflated its sales by \$560 million, prosecutors alleged. During a year and a half period beginning in July 2000, more than 99 percent of the sales to Suprema's six largest customers -- the ones involved in the scheme -- were fake, according to testimony.

Assistant U.S. attorneys John Fietkiewicz and Eric Jaso said Suprema was able to boost its sales by simply inventing them. The company claimed to sell cheese to certain customers, but the transactions existed only on paper, which was used to fool auditors, bankers and investors.

"Yes, Suprema made and processed real cheese," Jaso said during closing arguments. "But it also made and processed a lot of paper."

"Mark Cocchiola and Steven Venechanos knew about this fraud," he said. "Not only did they know about it, they actively participated in it. They knew Suprema looked good only on paper."

The fake numbers allowed Suprema to sell some \$41 million of stock during a public offering in November 2001. Cocchiola unloaded his own shares in the sale, profiting by more than \$2.5 million; Venechanos made more than \$1 million, the government said.

Attorneys for the two executives, who did not testify, agreed there was a huge fraud at the company. But the lawyers insisted their clients were hoodwinked along with everyone else by a cabal of corrupt employees and customers.

"The scheme was fundamentally designed to deceive not just bankers and lawyers, but Suprema and Mark Cocchiola," said his attorney, Lawrence Lustberg, during his closing arguments. "He didn't know."

Instead, Lustberg and Venechanos' attorney, John Whipple, focused on the prosecution's main witnesses. Former Suprema controller Art Christensen spent several days on the witness stand, describing how he participated in the scheme and recounting conversations he said he had with Cocchiola and Venechanos about it.

Christensen, of Lake Hopatcong, briefly was in charge of the fraud in the fall of 2001, after the death of executive Paul Lauriero. Both sides acknowledged Lauriero, Cocchiola's brother-in-law and Suprema's co-founder, managed the day-to-day details of the fraud before dying of a heart attack in August 2001.

Whipple branded Christensen and others liars, saying Christensen was able to "define" the government's case by telling his story to authorities just weeks after quitting Suprema in December 2001.

Lustberg, in turn, concentrated on customer Jack Gaglio, who also pleaded guilty to taking part in the fraud. The defense attorney branded Gaglio a mobster and said he headed a mob scheme to take control of Suprema.

In all, the government secured guilty pleas from six former Suprema employees and customers, but not all of them testified at the seven-week trial. The ultimate conclusion yesterday surprised many in the courtroom because of Friday's note from the jury about their impasse.

The judge denied defense attorneys' requests for a mistrial last week and instead urged jurors to try again. It took them just two more hours of deliberation yesterday morning to reach a verdict.

Venechanos was the most visibly upset of the two men by the news. He removed his glasses, lowered his head at one point and his face became flushed. Cocchiola simply put his left index finger to his lips.

Afterward, their attorneys said they were disappointed by the verdict and planned to file post-trial motions challenging it.

"We feel very strongly in the innocence of Mr. Venechanos," Whipple said minutes after the verdict. "I also believe, given the strength of the note passed (by jurors) last Friday, the court should have granted a mistrial at that time."

The judge allowed Cocchiola and Venechanos to remain free on bail and set sentencing for July 10. The charges carry maximum sentences of more than 30 years in prison, but the men likely will face much less.

A civil securities fraud lawsuit brought by the Securities and Exchange Commission and a shareholder class action lawsuit remain pending against the men.

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