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BLOCK, J.

POHORELSKY, M.J.

UNITED STATES DISTRICT COURT  
 EASTERN DISTRICT OF NEW YORK

FILED  
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 SECURITIES AND EXCHANGE COMMISSION, :  
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 Plaintiff, :  
 :  
 -against- :  
 :  
 RALPH R. CIOFFI and :  
 MATTHEW M. TANNIN, :  
 :  
 Defendants. :  
 -----X

08 Civ. \_\_\_\_\_ ( )

JURY TRIAL  
 DEMANDED

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission"), alleges the following against defendants Ralph R. Cioffi ("Cioffi") and Matthew M. Tannin ("Tannin"):

SUMMARY OF ALLEGATIONS

1. This action concerns fraudulent acts and misrepresentations made by Cioffi and Tannin in connection with the high-profile collapse of two now-defunct hedge funds which they managed, the Bear Stearns High-Grade Structured Credit Strategies

Fund (“High Grade Fund”) and the Bear Stearns High-Grade Structured Credit Strategies Enhanced Leveraged Fund (“Enhanced Leverage Fund”). The funds – which had taken highly leveraged positions in collateralized debt obligations (“CDOs”) based on subprime mortgage-backed securities – collapsed in June 2007, causing investor losses of approximately \$1.8 billion.

2. Particularly during the first five months of 2007, as the funds suffered increasing losses to the value of their portfolios and faced growing margin calls and redemptions (i.e., sales by investors of interests in the funds), senior portfolio manager Cioffi and portfolio manager Tannin deceived their own investors, as well as the funds’ institutional counterparties, by fraudulently concealing from them the full extent of the funds’ deepening troubles.

3. The two managers brought in new money and persuaded existing investors and counterparties not to withdraw their money by consistently misrepresenting the level of redemptions from the funds, the current state of the funds, and/or the composition of the funds’ portfolios. They made these misrepresentations during investor conference calls, in individual discussions with investors, and in written materials provided to investors, among other media and forums.

4. Cioffi falsely told investors, during a conference call, that the funds had only a couple of million dollars in scheduled redemptions when, in reality, they had approximately \$110 million in scheduled redemptions at that time. Tannin and Cioffi repeatedly understated outstanding redemption requests to investors and counterparties during spring 2007.

5. Additionally, although Cioffi and Tannin had continually used their own investments in the funds as a selling point to investors, Cioffi urgently redeemed \$2 million of his personal investment in the Enhanced Leverage Fund at the end of March 2007 without revealing the transfer to his own funds' investors. Cioffi's clandestine redemption caused the Enhanced Leverage Fund to pay out \$2 million at a time when the markets were weak and the fund was facing another month of losses, as well as escalating margin calls and forced sales.

6. During this period, although Cioffi had lost faith in the funds – as evidenced by his own redemption from the Enhanced Leverage Fund – he nonetheless falsely expressed his supposed confidence in the funds, encouraging investors to add money to the funds and attempting to dissuade them from redeeming.

7. Aware of the comfort that the funds' investors took from management's stake in the funds, Tannin also began repeatedly telling investors and the funds' top salespersons, in March 2007, that he was adding to his own investment in the fund. Tannin never added to his investment, yet his misrepresentations contributed to an inflow of subscriptions to the funds in March and April 2007, a time of poor performance.

8. Through the acts alleged in this complaint, the defendants engaged in, and unless restrained and enjoined by the Court will continue to engage in, transactions, acts, practices, and courses of business that violate Section 17(a) of the Securities Act of 1933 (the "Securities Act") [15 U.S.C. § 77q(a)] and 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].

9. The Commission seeks a judgment from the Court: (a) enjoining the defendants from engaging in future violations of the above sections of the federal securities laws; (b) requiring the defendants to disgorge, with prejudgment interest, the illegal profits and proceeds they obtained as a result of their actions alleged in this complaint; and, (c) requiring the defendants to pay civil money penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

### **JURISDICTION**

10. The Court has jurisdiction over this action pursuant to Sections 20(b), 20(d) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b) and (d) and 77v(a)] and Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d) and (e) and 78aa].

11. The defendants made use of the means and instrumentalities of interstate commerce or of the mails in connection with the acts, practices, and courses of business alleged in this complaint, certain of which occurred within the Eastern District of New York. Venue is proper in this District pursuant to Section 22(a) of the Securities Act and Section 27 of the Exchange Act [15 U.S.C. §§ 77v(a) and 78aa].

### **THE PARTIES**

12. The plaintiff is the Securities and Exchange Commission, which brings this civil action pursuant to authority conferred on it by Section 20(b) of the Securities Act [15 U.S.C. 77t(b)] and Section 21(d)(1) of the Exchange Act [15 U.S.C. 78u(d)(1)].

13. Defendant Cioffi is a 52-year-old resident of Tenafly, NJ. Cioffi acted as senior portfolio manager of the High Grade and Enhanced Leverage Funds.

14. Defendant Tannin is a 46-six-year-old resident of New York, NY. Tannin acted as chief operating officer and portfolio manager of the High Grade and Enhanced Leverage Funds.

#### **RELATED ENTITIES**

15. Founded in 1923 as an equity-trading house, Bear Stearns survived the New York stock market crash of 1929 and eventually grew to become one of the largest brokerages and investment banking firms on Wall Street, with offices in major cities around the world. The firm cultivated an image as an industry innovator and developed an increasing focus on the bond markets. By 2007, it was one of the nation's largest mortgage bond underwriters and brokers to hedge funds.

16. The Bear Stearns Companies Inc. ("BSC") was incorporated in Delaware on August 26, 1985. A holding company for various Bear Stearns' subsidiaries, BSC had its principal place of business in New York, NY. In March 2008, BSC and a financial services firm entered into a merger agreement. The merger closed on May 30, 2008.

17. Bear, Stearns & Co. Inc. ("BS&C") was incorporated in Delaware on August 2, 1985 and had its principal place of business in New York, NY. It is registered with the Commission as a broker-dealer, and was a wholly-owned subsidiary of BSC.

18. Bear Stearns Asset Management ("BSAM") was incorporated in New York on March 15, 1985, and had its principal place of business in New York, NY. It was registered as an investment adviser with the Commission throughout the time period that the fraudulent conduct alleged in this complaint occurred and remains so to date. It acted as general partner and investment adviser to the High Grade and Enhanced Leverage Funds, and was a wholly-owned subsidiary of BS&C.

19. Bear Stearns High-Grade Structured Credit Strategies Master Fund, Ltd. (“High Grade Master Fund”) was incorporated in the Cayman Islands and had its principal place of business in New York, NY. Unregistered with the Commission in any capacity, it functioned as the master fund through which the High Grade domestic and offshore feeder funds invested.

20. Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd. (“Enhanced Leverage Master Fund”) was incorporated in the Cayman Islands and had its principal place of business in New York, NY. Unregistered with the Commission in any capacity, it functioned as the master fund for the Enhanced Leverage Fund’s overseas and domestic feeder funds. However, the feeder funds invested in the master fund only indirectly, through a leveraged total return swap with a foreign bank (“Bank No. 1”), the sole shareholder of the Enhanced Leverage Master Fund.

21. Bear, Stearns Securities Corp. (“BSSC”) was incorporated in Delaware on February 7, 1991 and had its principal place of business in Brooklyn, NY. It acted as the prime broker and custodian to the High Grade Master and Enhanced Leverage Master Funds, and was a wholly-owned subsidiary of BS&C.

## FACTS

### A. BACKGROUND OF THE FUNDS

#### 1. The Nature of Hedge Funds

22. There is no statutory or regulatory definition of the term “hedge fund,” although many, such as the High Grade and Enhanced Leverage Funds, have several characteristics in common. Hedge funds are pooled investment vehicles organized by professional investment managers who frequently have a stake in the funds they manage

and receive a management fee that includes a substantial share of the profits of the fund. Individuals and institutions invest in the hedge funds through the purchase of securities, such as partnership interests, that the hedge funds typically issue in “private offerings” that are not registered with the Commission. Hedge Funds are not required to make periodic reports to the Commission and typically operate in a manner that does not require regulation as investment companies.

23. Hedge funds typically provide information to prospective investors during an investor’s initial due diligence review of the fund, before an investment is made. Most hedge funds provide written information to their investors in the form of a private offering memorandum or private placement memorandum (“PPM”). PPMs generally disclose in broad terms the fund’s investment strategies, practices, operations and “risk factors,” and typically include disclosure that an investment in the hedge fund is speculative and includes a substantial risk of loss, including the possibility of a total loss of the investment.

24. Hedge funds may also provide ongoing information to hedge fund investors in the form of letters, periodic reports, conference calls, financial statements, and individual discussions.

25. Cioffi and Tannin utilized all of these methods of communication with respect to the High Grade and Enhanced Leverage Funds and typically held investor conference calls following the end of each calendar quarter to discuss fund performance and market conditions. Cioffi and Tannin held such quarterly conference calls on January 18, 2007 and April 25, 2007, as well as a special investor conference call on

March 12, 2007. The March call was scheduled specifically to deal with growing investor concern about the funds' performance and market conditions.

26. Information concerning most aspects of the High Grade and Enhanced Leverage Funds' performance was not available to investors outside of these channels. For example, investors had access to information concerning the funds' subprime exposure, margin calls, redemption requests, asset sales, liquidity, and essential soundness only through Cioffi and Tannin directly, or through the re-transmittal of such information – obtained from Cioffi and Tannin – by the BSAM and BS&C sales forces.

27. The antifraud provisions of the federal securities laws apply to hedge funds regardless of the sophistication level of the investors to whom material misrepresentations or omissions are made. When hedge fund managers such as Cioffi and Tannin choose to make statements to investors, they must speak truthfully and not omit material information necessary to prevent their statements from being misleading.

## **2. The Creation of the High Grade Fund and the Enhanced Leverage Fund**

28. Cioffi joined BS&C as a bond salesman in 1985 and continued to work in fixed income sales through early 2003, when he explored leaving BSC to start his own hedge fund based on investments in CDOs, which are structured securities backed by a portfolio of bonds, loans, or other assets.

29. BSAM had been seeking to expand its small group of hedge funds, and asked Cioffi to stay at BSC, although he had no prior experience as a trader or hedge fund manager. In 2003, BSAM opened the High Grade Fund, bringing in Tannin – who also lacked any prior experience as a trader or fund manager – and another portfolio manager (“Third Manager”) to assist Cioffi.



30. As stated in its PPM, the High Grade Fund's objective was to provide current income and capital appreciation in excess of the London Interbank Offered Rate ("LIBOR"). It sought to achieve this objective by investing in purportedly stable, "high grade" structured finance investments, particularly involving long positions in mostly AAA and AA-rated CDOs.

31. The fund further sought to hedge risks associated with those positions mostly by purchasing instruments called credit default swaps ("CDS"), and sought to magnify its returns by borrowing money through margin loans and repurchase agreements ("repos"). A CDS is a type of credit derivative that essentially acts like an insurance contract against the risk that a bond or other security will default or experience a downgrade. A repo is a vehicle for extending the equivalent of a secured loan from repo lender to borrower. The fund's CDOs and CDO<sup>2</sup>s were typically highly illiquid. (CDO<sup>2</sup>s are essentially CDOs whose underlying assets include tranches of other CDOs.)

32. Cioffi and Tannin sold the High Grade Fund to investors as a relatively safe source of income, involving only a small amount of well-hedged risk and suitable for investors desiring capital preservation. They fostered this expectation with assertions that the fund operated "like a bank" by borrowing capital at relatively low rates and then redeploying it into investments that yielded slightly higher rates.

33. The High Grade Fund soon grew to become BSAM's largest hedge fund, with more than \$1.5 billion in investor capital and a "team" of assigned personnel. In selling the fund, the defendants typically emphasized BSC's institutional expertise in mortgage-backed bonds, as well as their own acumen and reputation within that sector. Cioffi split 50/50 with BSAM the management and incentive fees that the fund generated,

paying Tannin, and other High Grade team members from his half but keeping most of his split for himself, in the form of eight-figure annual bonuses. Tannin received seven-figure bonuses from Cioffi.

34. Cioffi and Tannin created the Enhanced Leverage Fund, in August 2006, in an effort to provide greater returns than the High Grade Fund. This new fund had the flexibility to boost leverage, beyond the maximum 10x leverage employed by the High Grade Fund, by up to an additional factor of 2.75 (i.e., up to 27.5 times of investor capital), through a leverage arrangement with Bank No. 1, as described more fully below. To encourage investment in the new fund, the defendants moved their own stakes entirely over to the Enhanced Leverage Fund and informed investors of the move. Ultimately, investors moved about one-third of their total capital from the High Grade Fund to the Enhanced Leverage Fund as the latter fund launched.

35. The “enhanced leverage” employed by the Enhanced Leverage Fund came by virtue of a “total return swap” agreement that had been negotiated by the Enhanced Leverage Fund with Bank No. 1. Bank No. 1 was essentially positioned between the Enhanced Leverage Master Fund and that fund’s overseas and domestic feeder funds, adding Bank No. 1’s own money to increase the leverage of the investment into the Enhanced Leverage Master Fund. The anticipated benefit for the feeder fund investors was that if the Enhanced Leverage Fund’s portfolio increased in value, the feeder fund investors would receive a return, augmented by Bank No. 1, beyond the simple increase in asset value.

36. By early 2007, investors in the High Grade Fund had made net contributions of \$1.08 billion, while those in the Enhanced Leverage Fund had made net

contributions of \$775 million. The funds' investors consisted of relatively high-net-worth individuals, some of whom invested through closely held corporations, trusts, IRAs, or other vehicles, as well as institutional investors, such as corporations, employee benefit plans, foundations, and "funds of funds," i.e., pooled investment vehicles that themselves invest in other hedge funds. Although the funds required a \$1 million minimum investment, BSAM had discretion under the PPM to reduce or waive the requirement, and this discretion was typically exercised through the defendants. Many individual investors put less than \$500,000 into the funds. Some invested only \$250,000.

37. By July 18, 2007, BSAM had concluded that the Enhanced Leverage Fund had been completely wiped out and that the High Grade Fund had lost 91% of its value year-to-date. Subsequently, the High Grade Fund's losses were likewise stated to be 100%. Investors consequently lost a total of approximately \$1.8 billion in net contributions to the two funds.

38. Cioffi and Tannin's fraudulent acts and misrepresentations, set forth in this complaint, occurred in connection with the purchase or sale of securities because investors made numerous purchases and sales of partnership interests in the funds during the period of fraudulent conduct. Additionally, investors were dissuaded from making additional redemption requests during the period by the defendants' fraudulent conduct and misrepresentations. The defendants' fraudulent acts and misrepresentations also were made in the offer or sale of securities because each iteration of a fraudulent statement alleged herein – and each omission of a material fact necessary to prevent another statement made by the defendants from being misleading – occurred in

furtherance of Cioffi and Tannin's continuous attempts to sell limited partnership interests in the funds to investors.

**B. CIOFFI AND TANNIN MATERIALLY MISREPRESENTED THE FUNDS' PORTFOLIO COMPOSITION**

**1. Cioffi and Tannin Surreptitiously Moved the Funds into Increasingly Aggressive Investments**

39. During 2006, without telling the funds' investors, Cioffi and Tannin began to move the funds into ever more aggressive investments in securities backed by subprime mortgage loans. Indeed, the High Grade Fund, heading into 2007, was little more than a highly leveraged subprime fund with its holdings concentrated in illiquid CDOs and CDO<sup>2</sup>s. For its part, the Enhanced Leverage Fund was a still more leveraged version of the High Grade Fund, with an equally illusory margin of safety.

40. Cioffi controlled the High Grade and Enhanced Leverage Funds, and had complete discretion to make the final investment decisions for the funds. BSAM gave Cioffi's team great leeway in operating the funds because his team had been profitable for BSAM and had grown rapidly.

41. From late 2006 through June 2007, Cioffi became increasingly indiscriminate in the management of his funds. During that time, Cioffi started buying ever-more-risky investments such as ABS significantly backed by subprime securities rated BBB, as well as riskier types of CDOs, and even less transparent, illiquid, CDO<sup>2</sup>s. Tannin noted Cioffi's lack of buying discipline, in a February 5, 2007 e-mail to the Third Manager: "Unbelievable. He is unable to restrain himself."

## 2. The Funds' Subprime Mortgage Exposure

42. Cioffi and Tannin misrepresented to their investors the true extent of subprime mortgage exposure in the funds' portfolio. By 2006, it had become increasingly difficult for the High Grade Fund to generate returns in excess of LIBOR. Cioffi began chasing higher yields by shifting an ever-increasing proportion of the High Grade Fund's assets into CDOs and CDO<sup>2</sup>s backed by subprime mortgages. However, in communications with investors, Cioffi and Tannin never drew attention to the ongoing "drift" in the fund's investment focus. On the contrary, monthly written Preliminary Performance Profiles ("PPPs") that the defendants provided to current and prospective fund investors, purporting to show the fund's composition, consistently understated the fund's subprime exposure by hiding most of it in a catchall asset-backed security ("ABS") category. The only category with "sub-prime" in its title misleadingly showed only a small slice of the fund's overall subprime exposure.

43. In the monthly PPPs, the defendants represented through recurring bar charts summarizing the funds' portfolios or collateral that, typically, only about 6 – 8% of each fund's portfolio was invested in "sub-prime RMBS." ("RMBS" is the acronym for residential mortgage-backed securities.) This represented only the funds' direct investment in subprime securities. By separating out the funds' direct subprime investments, Cioffi and Tannin misrepresented the true amount of subprime exposure in the funds because the funds also held a much greater amount of subprime, indirectly, through their massive CDO and CDO<sup>2</sup> positions. This indirect subprime exposure was not reflected in the bar charts at all. The PPP bar charts were the only written indication

of the funds' subprime exposure ever provided to fund investors, at least until after the funds collapsed.

44. Additionally, throughout the Enhanced Leverage Fund's life, the bar charts used for that fund's PPPs were merely copied from the charts used for the High Grade Fund. Because the portfolios of the two funds included different holdings, Cioffi and Tannin misrepresented the Enhanced Leverage Fund's composition to that fund's prospective and existing investors who received the PPPs.

45. Cioffi and Tannin both received the PPPs monthly, when published, and Tannin also regularly received drafts for his input and shared them with Cioffi. Tannin regularly drafted sections of the PPP, and Cioffi did so occasionally. Tannin approved each fact sheet.

46. According to an industry-standard Alternative Investment Management Association ("AIMA") due-diligence questionnaire completed by BSAM for the High Grade Fund in August 2006, "[a]s a general practice, positions are limited to a maximum 5% exposure per name with a target of 1% per name and no more than 1/3rd in any one asset class." This questionnaire was sent to prospective investors in both the High Grade and Enhanced Leverage Fund who requested it. Tannin reviewed one or more drafts of the questionnaire and knew, or was reckless in not knowing, that the questionnaire response was misleading because the High Grade Fund had more than one-third of its portfolio exposed to the subprime asset class.

47. Cioffi also misrepresented the funds' subprime mortgage exposure on the defendants' January 18, 2007 investor conference call, and he and Tannin made further misrepresentations on their March 12 and April 25, 2007 investor conference calls. The

defendants misrepresented the funds' subprime mortgage exposure on these three conference calls as significantly lower than it actually was.

48. Internally, an April 20, 2007 BSAM risk-exposure report showed the funds' collateral was, in fact, "primarily" subprime, i.e., approximately "60% sub-prime." BSAM disclosed the true nature of the funds' holdings, through its sales force, in a June 13, 2007 sample question and answer:

**Question:** "I thought I was invested in a 'high grade fund' but it sounds now like the fund(s) may have invested a fair amount of its assets in sub-prime mortgages."

**Answer:** "Based upon our portfolio managements' analysis, [as of May 31, 2007,] the percentage of underlying collateral in our investment grade structures collateralized by 'sub-prime' mortgages is approximately 60%."

49. The amount of subprime exposure was material to investors. On January, March and April 2007 conference calls, Cioffi and Tannin faced constant questioning from investors regarding the extent of subprime assets in the funds' holdings. E-mails between investors and the funds' sales force similarly showed a keen interest by investors in the percentage of subprime assets.

### 3. The Funds' Target Composition of 90% "AAA" Through "AA" Rated Securities

50. The funds had a "target" portfolio composition of 90% securities rated AAA through AA, with the managers having discretion over the remaining 10%.

51. In oral sales presentations, Cioffi and Tannin typically told investors, "We're 90% AAA or AA." This was an integral selling point for both funds, as the term "high grade" in the names of the funds was itself a representation that the assets would consist of AAA or AA-rated bonds. The High Grade Fund's monthly PPPs prominently

stated: “Typically, 90% of the Fund’s gross assets are invested in AAA or AA structured finance assets.”

52. The “90% AAA/AA” representation was misleading because, at least during 2006, the funds regularly were substantially less than 90% invested in AAA/AA securities.

53. Moreover, the undisclosed characteristics of many of the AAA/AA securities that the funds invested in rendered them fundamentally more likely to default than typical AAA/AA securities. In a private e-mail, Cioffi himself acknowledged that certain types of AAA CDO<sup>2</sup>s held by the funds were “not really AAA” because, due to the subordination structure of the underlying loans, the CDO<sup>2</sup>s were subject to a heightened risk of defaults.

54. Cioffi and Tannin knew, or were reckless in not knowing, that their “90% AAA/AA” representation was misleading. This misrepresentation was material to investors, and its significance was magnified by the leverage that the funds applied to the non-AAA/AA portion of their portfolios.

#### **4. The Funds’ Hedging Strategy**

55. In written materials, individual discussions with investors, and investor conference calls, Cioffi and Tannin constantly stressed that the High Grade and Enhanced Leverage Funds were adequately hedged to survive market gyrations. The funds hedged primarily through the purchase of CDS and CDS-related positions, including options to purchase CDS, which equated to taking “short” positions on the securities or indexes underlying the CDS.



56. Cioffi and Tannin misrepresented the adequacy and effectiveness of the funds' hedges on the January 2007 investor conference call. There, Cioffi stated that his team's "macro-economic view is for a slowing of the economy, [F]ed easing in 2007, spreads widening... [W]e are hoping for that... [W]e have proper hedges in place. We are short a significant amount of the sub-prime space." Tannin stated, on the same January call, that "the bottom line on our exposure is this. If the market were to continue to deteriorate, and spreads were to widen, we would do very well... We have a very nice short position."

57. However, after the Enhanced Leverage Fund had its first month of negative performance in February 2007, Cioffi admitted in e-mails that the loss came about because the Enhanced Leverage Fund had failed to hedge substantial positions that it had recently entered into. Indeed, according to Cioffi, the losses suffered by the fund on these unhedged positions constituted the Enhanced Leverage Fund's entire loss for the month.

58. On the March 2007 investor conference call, Cioffi again misrepresented that the funds were effectively hedged, stating: "What's my bottom line take-away here? Well, we've talked about the 100-year storm ... and how we felt we were effectively able to hedge that mark-to-market volatility. And certainly in High Grade we have done that. In Enhanced, we have effectively done that."

59. However, beginning in late February 2007 and continuing through at least May 2007, the High Grade Fund and Enhanced Leverage Funds actually lost money on *both* the long and short components of their portfolio. As early as January 2007, Cioffi had internally recognized shortcomings with the funds' hedging strategy, noting in an

e-mail to his team that a lack of liquidity in certain CDS index markets could cause the funds' hedges to move against them. By mid-March, even Tannin began internally to question the funds' hedging strategy, sending an e-mail to the Third Manager, with the subject line "????????????????????," asking, "Is ralph doing what he should be doing right now? Are we covering [index short positions]?"

60. Cioffi and Tannin misrepresented to investors that the High Grade and Enhanced Leverage Funds were adequately hedged against losses. These representations were material to investors, especially when made in conjunction with the 90% AAA/AA representation, because they contributed to the defendants' overall message that the funds were a safe investment.

**C. CIOFFI AND TANNIN MATERIALLY MISREPRESENTED THE CURRENT STATE OF THE FUNDS**

**1. Cioffi and Tannin Misrepresented to Investors that the Funds Were Sound and Remained on Course**

61. Beginning in February 2007, only six months after its inception, the Enhanced Leverage Fund started to experience negative monthly returns as the values of the worst CDOs and CDO<sup>2</sup>s in its portfolio were quickly impacted by the emerging subprime mortgage crisis and the fund's hedges only partially offset the drop. The High Grade Fund held up slightly better but realized its first negative returns in March.

62. To convince Bank No. 1 to commit an additional \$100 million to the Enhanced Leverage Fund, Tannin falsely told Bank No. 1, on February 27, 2007, that the Enhanced Leverage Fund had returned positive 4.3% for February, and assured Bank No. 1 the fund was experiencing its "best month ever." Bank No. 1 then committed the requested funding.

63. Both funds continued to lose money throughout the spring. It became clear to Cioffi and Tannin, early on, that the High Grade and Enhanced Leverage Funds were extremely unlikely to survive, yet the defendants hid this reality from investors.

64. On March 1, 2007, Cioffi told a team economist that the Enhanced Leverage Fund would have its first negative month, then cautioned him: “Don’t talk about [the February results] to anyone or I’ll shoot you...I can’t believe anything has been this bad.” On March 8, 2007, however, Tannin asked Bank No. 1 to add another \$100 million, falsely representing that “[d]espite dramatic volatility in the structured finance market, our Fund has been extremely stable. We are seeing the beginning of new asset opportunities.” By this point, Cioffi had concluded that the structured credit markets – and, thus, the funds’ fundamental investment strategy of buying and holding CDOs – had been irretrievably broken and would remain so for the foreseeable future. On March 15, 2007, Cioffi confessed to the team economist, in an e-mail with the subject line “fear”:

I’m fearful of these markets...As we discussed it may not be a melt down for the general economy but in our world it will be. Wall Street will be hammered with law suits. Dealers will lose millions and the cdo business will not be the same for years.

65. By the end of April, Tannin had also come to recognize this reality. On Sunday, April 22, 2007, only three days before the April 25<sup>th</sup> investor call, Tannin e-mailed Cioffi. In order to stay off of the BSC network, he sent the e-mail from his personal Gmail account to a Hotmail account associated with Cioffi’s household. In the e-mail, Tannin noted that the subprime market “looks pretty damn ugly” and argued for closing and liquidating both funds. Tannin noted that the Third Manager also had “lost confidence in the [CDO] structures.” Later that day, Tannin forwarded his e-mail to the

Third Manager's personal e-mail account – again, off the BSC network – and the Third Manager agreed with him that “[i]t looks really bad” and stated that “best way to get out of this risk [is] some form of a liquidating trust.”

66. Tannin based his pessimistic outlook partly on data from the team's anticipated and recently completed “credit model” that had been forwarded to the defendants on April 19, 2007. Tannin noted in his Gmail message, “IF we believe the runs [the analyst] has been doing are ANYWHERE CLOSE to accurate I think we should close the Funds now. The reason for this is that if [the runs] are correct then the entire sub-prime market is toast.”

67. However, the defendants decided not to close the funds and, on the April 25<sup>th</sup> investor conference call, hid their true, pessimistic views. Contrary to his April 22<sup>nd</sup> off-network e-mail, Tannin squarely told investors on the call that the outlook for the funds and the CDO markets was favorable. In his opening remarks on the call, Tannin stated: “[T]he key sort of big picture point for us at this point is our confidence that the structured credit market and the sub-prime market in particular, has not systemically broken down...So from a structural point of view, from an asset point of view..., we're very comfortable with exactly where we are.”

68. Cioffi presented the same message to investors on the April conference call, stating that “we are – cautiously optimistic that the CDO market has found its footing,” and claiming, “We have a plan in place that'll get the Funds back on track to generate positive return....” According to Cioffi, even in the unlikely event that CDO prices “just stay where they are,” the High Grade Fund would still finish the year up 8% and the Enhanced Leverage Fund up 6%.

69. Cioffi and Tannin repeated these themes in numerous one-on-one meetings and telephone calls with investors during late April and throughout May.

70. The representations were material to investors, who were growing increasingly concerned by the funds' negative performance and were asking the managers about the outlook for the funds and the market on a constant basis during this time period.

71. Tannin knew, or was reckless in not knowing, that his representations were false and misleading, having stated in his e-mails to Cioffi and the Third Manager, only three days prior to the April 25<sup>th</sup> investor call, that the funds should be liquidated because "we are just too long" and "the distress hasn't even begun."

72. Cioffi knew, or was reckless in not knowing, that his statements about the funds' ability to generate imminently positive returns were false and misleading. While he made these misleading statements to investors about the state of the funds, Cioffi declared his true assessment internally to colleagues and Wall Street contacts, admitting that the funds were not capable of overcoming troubles in the markets for the immediate future.

73. The defendants' misrepresentations bore another benefit. They succeeded in attracting approximately \$23 million in new subscriptions from investors for the May 1<sup>st</sup> subscription date.

74. From February through May 2007, as the Enhanced Leverage Fund's positions became increasingly precarious, Cioffi and Tannin enticed Bank No. 1 to add additional money, and sought to inhibit it from pulling out its \$400,000,000 total investment in the fund. Just as in their dealings with other investors, Cioffi and Tannin

misrepresented to Bank No. 1 – or failed to report to Bank No. 1 as required by the total return swap agreement – the Enhanced Leverage Fund’s performance, portfolio composition, and true condition.

75. By the middle of May, Cioffi had concluded that the Enhanced Leverage Fund would not survive at all. On May 13, 2007, he admitted to Tannin and the Third Manager: “I think...the [Enhanced Leverage Fund] has to be liquidated which seems to be somewhat certain given the redemption activity.” (emphasis added). However, Cioffi and Tannin never disclosed this conclusion to Bank No. 1, despite a duty under the total return swap agreement to inform Bank No. 1 of material events.

## **2. Cioffi and Tannin Misrepresented the Funds’ Net Asset Value**

76. Most of the funds’ short positions had readily obtainable market prices and were marked to market daily. However, most of the funds’ long portfolio consisted of highly illiquid securities that lacked a market quotation.

77. Pursuant to BSAM’s pricing policy, the funds sought to obtain multiple “marks” (i.e., price quotations) for their long securities on a monthly basis, either from the dealers that had sold them securities or from other dealers who had become familiar with the funds’ holdings. The funds sent their positions to dealers on the street at the end of each month and typically averaged the marks that they received to determine a month-end valuation for each security. When the funds could not obtain sufficient marks, or when Cioffi thought the marks were incorrect, the funds relied on so-called “fair market” valuations, which Cioffi determined. Any fair market valuations had to be approved by BSAM’s pricing committee.

78. BSAM and the funds, with input from the defendants, computed a daily net asset value (“NAV”) and month-to-date return for the High Grade and Enhanced Leverage Funds. However, these figures only took into account month-to-date changes to the funds’ hedges and their few exchange-traded long securities and assumed that the rest of the long portfolio had remained at the same valuation as the prior month-end marks. As a result, the funds and the defendants historically did not provide intra-month estimates to most of their investors because such estimates were unreliable. Instead, they provided “preliminary estimates” within a couple of weeks after each month’s end, followed by a final NAV about six weeks later. Preliminary estimates were issued after most dealer marks had been received. The final NAV came out once all of the marks were available. By early 2007, many subprime securities were rapidly declining in value, and thus BSAM and the defendants could no longer reasonably rely on stale, prior month-end marks as an indication of current values.

79. As late as mid-March 2007, Cioffi was adamant that intra-month estimates not be released to investors, castigating a BSAM sales person, internally, that the figures were unreliable: “You should also know better [than to release intra-month figures] in that our hedges are marked real time [and] our assets at the end of each month. We’ve said that 1000 times!!”

80. By April 2007, however, Cioffi was anxious to present the funds’ April performance in a positive light. Thus, he not only took the unusual step of providing an intra-month estimate on the April 25, 2007 investor conference call, but also did so without any notice to the call participants of the severe limitations inherent in the estimate. The only information that Cioffi provided was as follows: “The estimated

returns for April are -0.6 basis points for High Grade and -0.7 for Enhanced [i.e., -0.06% and -0.07%, respectively].” These “estimated returns” were disastrously off the mark, as the final NAVs for April were -5.09% for the High Grade Fund and -18.97% for the Enhanced Leverage Fund, stunningly large monthly losses for funds that Cioffi and Tannin had marketed as operating “like a bank.”

81. Tannin actively participated in the April 25, 2007 call. Although he constantly interjected his opinions to reinforce and explain Cioffi’s claims, in this instance, he said nothing to explain the estimates’ limitations.

82. Throughout May, Cioffi became increasingly desperate to fair value his funds’ portfolios and bring the final April numbers as much in line with earlier estimates as possible, thereby avoiding the need to report a huge disparity and prompt a likely flood of additional redemptions. Cioffi’s efforts, however, ultimately ran into resistance from BSAM’s pricing committee.

83. At a May 31, 2007 meeting, the pricing committee rejected every one of Cioffi’s requests to set aside a dealer mark and use his own valuation. When challenged, Cioffi had virtually no evidence to support his desired valuations, and conceded in a contemporaneous e-mail to a committee member, “There is no market... its [sic] all academic anyway [because] -19% [i.e., the Enhanced Leverage Fund’s anticipated final April NAV] is doomsday.”

84. Later in the day on May 31<sup>st</sup>, after the pricing committee had already met, Tannin e-mailed Cioffi to ask whether investors should still be given “the [preliminary]



-6.5 april or the larger down april?” Rather than simply telling Tannin to use the most recent and accurate number, Cioffi even then continued to equivocate, responding, “Ah that’s correct[.] I think that one deserves a phone call [to discuss].”

85. Cioffi and Tannin failed to disclose to the funds’ investors the significant limitations on the April 25<sup>th</sup> “estimated returns,” rendering the figures misleading under the circumstances. The estimates were material to investors.

86. Tannin also independently misrepresented the funds’ April NAV. On or about May 3, 2007, he falsely represented to a significant institutional counterparty that the funds’ performance had been flat to slightly positive in March and April and that the NAVs continued to increase.

87. Furthermore, by the middle of May, at the latest, Cioffi and Tannin were aware that the Enhanced Leverage Fund’s final April NAV would reflect losses of more than 10%. Even though the total return swap agreement with Bank No. 1 required Cioffi and Tannin to notify Bank No. 1 of any actual or anticipated losses greater than 10%, they failed to make the required disclosure.

88. On June 7, 2007, BSAM announced the Enhanced Leverage Fund’s final April NAV and froze redemptions. The following day, it announced the High Grade Fund’s final returns. Margin calls subsequently could no longer be met, and creditors began seizing the funds’ assets.

### **3. Cioffi Misrepresented an Upcoming CDO<sup>2</sup> Issuance as a Guaranteed Source of Liquidity**

89. From 2005 through December 31, 2006, BSAM and the funds issued approximately seven of their own CDOs or CDO<sup>2</sup>s into the marketplace. On the April 25, 2007 investor call, Cioffi claimed that the funds had “significant amounts of

liquidity,” in part because of what he variously called a “trade,” “transaction,” “facility,” or “funding vehicle” – actually a CDO<sup>2</sup> issuance – to be undertaken by Cioffi’s team and BSAM with a domestic bank (“Bank No. 2”). Cioffi asserted that this transaction “should be done this month and will close in May.” According to Cioffi, this was a “significant transaction to get done.” Cioffi also had touted the transaction on the March 12, 2007 conference call.

90. Although Cioffi continually presented the Bank No. 2 CDO<sup>2</sup> issuance as imminent throughout the spring, he knew, or was reckless in not knowing, that the deal would not actually be available to the funds until late May or early June, at the earliest. Moreover, he knew, or was reckless in not knowing, that the issuance would not solve the funds’ current and/or prospective liquidity problems because there were essentially no buyers for new CDOs in the market, which severely limited the amount of money that could be raised in an offering. In mid-April, Cioffi admitted to a broker that there was no “buy interest on anything anywhere in this world or universe[.] [I] think we need to go into outer space to find new buyers of cdo’s.”

91. When the deal was ultimately done, in late May 2007, it failed to impart benefits to the funds sufficient to solve their liquidity problems.

92. Cioffi misrepresented to investors the timing of the Bank No. 2 CDO<sup>2</sup> issuance and its impact on the funds’ liquidity. These misrepresentations were material to investors.

**D. CIOFFI AND TANNIN MATERIALLY MISREPRESENTED THE  
LEVEL OF INVESTOR REDEMPTIONS**

93. As April 2007 progressed, the defendants knew that many investors in the funds were either submitting redemption requests or considering doing so. The

defendants worried that excessive redemption requests would both set off a cascade of further redemption requests by investors and would panic repo counterparties into making margin calls. Thus, information concerning redemptions was material.

94. On the April 25, 2007 investor conference call, Cioffi acknowledged that “obviously, the [big] question that we’ve been getting from a number of investors [is] how do we look on a redemption/subscription basis?” Cioffi then reassured investors that the funds had gotten “about 45 million [dollars] in subscriptions, and 25 of that is from Bear Stearns,” while “we only have a couple of million of redemptions for the June 30 date... At least on the asset side we had a perfect storm. And we’ve lived through it, we have plenty of liquidity...So we’ve weathered the storm.”

95. In fact, Cioffi knew, or was reckless in not knowing, that the funds had received redemptions well in excess of “a couple of million” dollars as of April 25, 2007. As alleged in this complaint, Cioffi alone had redeemed two million dollars from the Enhanced Leverage Fund. Moreover, Cioffi knew, or was reckless in not knowing, that one of the funds’ largest institutional investors had given BSAM written notice, only days before, that it wanted to redeem its \$56 million interest in the Enhanced Leverage Fund (\$29 million on May 31, 2007, and \$27 million on June 30, 2007).

96. Cioffi materially understated the total outstanding redemption requests received by BSAM. He falsely stated that there were only a “couple of million” dollars in June redemptions, when there were in fact tens of millions of dollars in June redemptions. He also indicated that the funds were taking in \$45 million, a more attractive and enticing statistic to keep investors from redeeming and encouraging them to invest more.

97. Not only did Cioffi falsely represent June redemptions, he also failed to disclose that total outstanding redemption requests, i.e., for May through August 2007, were approximately \$110 million.

98. Tannin also misrepresented the amount of redemptions. For example, about a week after the April 25<sup>th</sup> investor conference call, on or about May 3, 2007, Tannin misrepresented to one of the funds' most significant institutional counterparties that he and Cioffi did not anticipate any large redemptions. Tannin knew, or was reckless in not knowing, that the funds had more than \$100 million in outstanding redemption requests at that time.

99. Cioffi continued to misrepresent the level of redemptions after the April 25<sup>th</sup> conference call. On May 30, 2007, for example, he e-mailed an individual investor that the funds had "talked any June redemptions of note" into pulling their redemption requests, "other than about \$5 [million]."

100. By materially understating the true amount of redemptions, Cioffi and Tannin, knowingly or recklessly, misled investors regarding a material aspect of the funds' condition.

**E. CIOFFI MOVED HIS MONEY OUT OF THE TROUBLED ENHANCED LEVERAGE FUND**

**1. Cioffi Redeemed \$2 Million of His Investment from the Troubled Enhanced Leverage Fund**

101. Notwithstanding Cioffi's public assertions that his funds remained sound and would soon generate positive returns, Cioffi nonetheless rushed to redeem \$2 million of his investment in the Enhanced Leverage Fund during the thick of its troubles.

102. Cioffi knew, by March 14, 2007, that the High Grade Fund had been getting more margin calls than the team had estimated and that, as a result: “We are now having to sell some bonds and to repo some unmarginated stuff to meet margin calls...It’s obviously not a great market to sell anything in but we are going to sell what we can quietly.” Cioffi also knew by around that time that several of the Enhanced Leverage Fund’s largest investors, after learning of the fund’s negative results for February 2007, had already told the sales force that they wanted to redeem.

103. As the High Grade and Enhanced Leverage Funds’ portfolios faced losses for March 2007, a third BSAM fund – with which Cioffi was associated as a senior adviser – called the Structured Risk Partners Fund (“SRP Fund”), showed positive results. In contrast to the High Grade and Enhanced Leverage Funds, the SRP Fund had managed to generate impressive returns during the subprime downturn through arbitrage and a relative-value strategy of matched long and short trades. Cioffi was aware of these impressive returns and noted that “SRP was designed to be mostly short sub prime.”

104. On March 23, 2007, Cioffi requested that BSAM transfer \$2 million of his own \$5.7 million total investment in the Enhanced Leverage Fund to the SRP Fund, effective on April 1, 2007, the next possible subscription date. The requested \$2 million redemption represented almost half of Cioffi’s \$4.2 million original stake in his funds, which had appreciated to \$5.7 million over several years.

105. Cioffi’s urgent redemption received special treatment and was processed without adherence to the general notice requirements for redemptions set forth in the Enhanced Leverage Fund’s PPM, which restricted withdrawals from the fund to those made on 40 days’ notice (with a 2% fee) or on 60 days’ notice, at quarter’s end.

Although BSAM retained discretion under the PPM to make exceptions to the notice requirements, redemptions had become a concern for the funds by March 2007, and the 40 or 60 days' notice requirements were being strictly applied to investors other than Cioffi, at least for withdrawals. Despite this, Cioffi moved his own money out of the funds on only five full business days' notice. Cioffi's redemption caused the Enhanced Leverage Fund to pay out \$2 million at a time when the markets were weak and the fund was facing increasing margin calls and forced sales.

## **2. Cioffi Concealed his Redemption from Investors**

106. Not only did Cioffi fail to disclose his transfer from the Enhanced Leverage Fund to the SRP Fund, he also lied to investors about his stake in the Enhanced Leverage Fund.

107. Cioffi and Tannin made a point of telling investors, when marketing first the High Grade Fund and then the Enhanced Leverage Fund, that both managers were invested in the funds, as a sign of confidence. On March 22, 2007, the day before his own redemption, Cioffi told a BS&C salesperson seeking to talk an institutional investor out of a redemption request that "the best action for them [is] to be patient...Really what we should be talking to them about is increasing their investment in either [the Enhanced Leverage Fund] or [the High Grade Fund,] not redeeming."

108. On the April 25, 2007 conference call for High Grade and Enhanced Leverage Fund investors, Cioffi misleadingly declared, "[Y]ou've got a very devoted, dedicated asset management team here. I mean our money is in ... these funds." Cioffi omitted the material information that he had significantly reduced his stake in the

Enhanced Leverage Fund, which was necessary to prevent investors from being misled under the circumstances.

109. Tannin contemporaneously learned of Cioffi's intent to transfer money from the Enhanced Leverage Fund to the SRP Fund and, on April 2, 2007, questioned the timing of Cioffi's move, telling him, "I'm a tiny bit worried about the message this sends – if we are asked about what we are doing with our personal money – do we want to tell people we are moving our personal money out of [the Enhanced Leverage Fund] and into srp?" Cioffi brushed Tannin's worry aside, responding, "I don't think it's a big problem...SO far no[] one has asked...."

110. Moreover, the BSAM and BS&C sales forces did not know that Cioffi had transferred nearly half of his original investment out of the Enhanced Leverage Fund. On the contrary, based upon statements by the defendants, the sales forces affirmatively represented to investors during March and April that the funds' managers were adding to their investments. Tannin, likewise, told one of the funds' largest institutional investors, on March 19, 2007, that Cioffi and he were both adding to their investments.

111. Cioffi's redemption was material to investors, particularly in the context of the poor performance and difficult market conditions faced by the Enhanced Leverage Fund at the time. Moreover, Cioffi and Tannin had themselves marketed the Enhanced Leverage Fund to investors, at its inception, with representations that the two managers were moving their entire investment stakes from the High Grade Fund, because this information was material to the investors.

112. Cioffi never told investors that he was moving nearly half of his original investment in the Enhanced Leverage Fund to the profitable SRP Fund during a period of

increasing margin calls coupled with poor fund performance. Cioffi's redemption further rendered misleading his representations concerning the current state of the fund and its ability to generate positive returns in the near future. Cioffi defrauded investors because he gave the false impression that his money was aligned with and at risk with their own money and interests, and that he had confidence in the funds. In truth, his withdrawal, and his internal statements to his colleagues and contacts on Wall Street, indicated otherwise.

**F. TANNIN FALSELY TOLD INVESTORS THAT HE WAS INCREASING HIS OWN INVESTMENT IN THE ENHANCED LEVERAGE FUND**

113. In March 2007, Tannin began telling investors that he believed in the funds so strongly that he was putting more of his own money into the Enhanced Leverage Fund and encouraging them to do the same. For example, on March 7, 2007, Tannin told one institutional investor, "We see opportunity here...I am [putting] in additional capital – I think you guys should as well."

114. Relying on his assertions, the BSAM and BS&C sales forces repeated Tannin's claim. In all, from about March 15 to 18, 2007, Tannin told approximately five or more of the funds' major salespersons that he was adding money to the funds and so should their investors. This was the very same week that Cioffi expressed his fear about the funds' ability to meet increasing margin calls, and only one week before Cioffi requested the withdrawal of his own money from the Enhanced Leverage Fund.

115. Tellingly, however, Tannin never added to his position, and never subsequently advised investors, or the funds' salespersons, that he had not invested. Instead, Tannin mocked investors who lacked his supposed courage in seizing an historic



buying opportunity. In a March 30, 2007 e-mail, Tannin wrote to one such investor, who sought to redeem:

I think you are being silly...we are now experiencing volatile times ... You have chosen the absolute silliest time to redeem. In fact, if I had any hope whatsoever it would have been that I had prepared you for an experience like the one you are having.

116. Tannin's lies paid off. On March 30, 2007, Tannin bragged to a key BSAM analyst, "Believe it or not – I've been able to convince people to add more money...." On April 1, 2007, he transmitted the March subscription totals to the Third Manager and gloated, "[N]ot bad, eh?" The Third Manager responded, "That's an understatement."

117. Tannin made false and misleading representations that he was adding to his own investment in the Enhanced Leverage Fund. He neither made the additional investment nor, despite ample opportunity, told investors the truth subsequently. These statements were material to investors, particularly in the context of the poor performance and difficult market conditions faced by the Enhanced Leverage Fund at the time.

118. Tannin further defrauded investors because he gave them the false impression that an additional amount of his money would be aligned, and at risk, with their own money and interests, and that he had confidence in the funds. The fact that he did not add to his investment showed, on the contrary, his actual lack of confidence in the funds.

**G. CIOFFI AND TANNIN'S PERSONAL RECORDS FROM THE CRITICAL TIME PERIOD OF THEIR FRAUDULENT CONDUCT ARE MISSING**

119. On June 18, 2007, BSC received a request from the Commission staff to produce documents relating to the funds. On June 19, 2007, Cioffi and Tannin each

received a document retention and preservation memorandum requiring all BSAM employees to preserve all documents concerning the funds, among other things.

120. Throughout 2007, Cioffi used notebooks to record work concerning the funds. However, Cioffi's personal notebooks from January 2007 through mid-June 2007 have never been found and were not produced to the Commission staff.

121. From January through June 2007, Tannin took notes concerning the funds in notebooks and on his "TabletPC," which is a laptop-like device. This TabletPC was never synched to his BSC computer, the BSC system, or his personal home computer. Tannin's TabletPC is now missing and was never produced to the Commission staff.

### **FIRST CLAIM FOR RELIEF**

#### **Violations of Section 17(a) of the Securities Act (Both Defendants)**

122. The Commission realleges and reincorporates by reference paragraphs 1 through 121 above. From at least October 2003 through June 2008, Cioffi and Tannin, by use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, in the offer or sale of securities: (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 the light of the circumstances under which they were made, not misleading; and/or (c) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon the purchasers of the securities offered or sold by the defendants.

123. By reason of their actions alleged in this complaint, the defendants each violated Section 17(a) of the Securities Act of 1933 [15 U.S.C. § 77q(a)].

**SECOND CLAIM FOR RELIEF**

**Violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5  
(Both Defendants)**

124. The Commission realleges and reincorporates by reference paragraphs 1 through 121 above.

125. From at least October 2003 through June 2008, Cioffi and Tannin, by use of the means or instrumentalities of interstate commerce or of the mails, in connection with the purchase or sale of securities: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and/or (c) engaged in acts, practices or courses of business which operated or would operate as a fraud or deceit.

126. By reason of their actions alleged in this complaint, the defendants each violated Section 10(b) of the Securities Exchange Act of 1934 and Exchange Act Rule 10b-5 [15 U.S.C. § 78j(b); 17 C.F.R. § 240.10b-5].

**PRAYER FOR RELIEF**

**WHEREFORE**, the Commission respectfully requests that the Court:

**I.**

Enter judgment in favor of the Commission finding that the defendants each violated the securities laws as alleged in this complaint;

**II.**

Permanently enjoin each of the defendants from violating Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5 promulgated thereunder [15 U.S.C. §§ 77q(a), 78j(b); 17 C.F.R. § 24010b-5];

III.

Order the defendants to disgorge the profits and proceeds they obtained as a result of their illegal actions alleged in this complaint, and to pay prejudgment interest thereon;

IV.

Order the defendants each to pay civil money penalties pursuant to Section 20(d) of the Securities Act of 1933 and Section 21(d)(3) of the Securities Exchange Act of 1934 [15 U.S.C. §§ 77t(d), 78u(d)(3)];

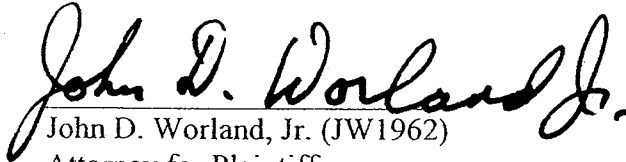
V.

Grant such other relief as this Court may deem just and proper.

Dated: June 19, 2008

Respectfully submitted,

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