UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

UNITED STATES SECURITIES AND EXCHANGE COMMISSION, **Plaintiff,** **v.** **SENTINEL MANAGEMENT GROUP, INC., ERIC A. BLOOM, AND CHARLES K. MOSLEY,** **Defendants.**	:	**CASE NO. 07 C 4684** **Judge Kocoras** **Magistrate Judge Mason** **JURY DEMANDED**

FIRST AMENDED COMPLAINT

Plaintiff United States Securities and Exchange Commission ("SEC" or "Commission") for its First Amended Complaint alleges as follows:

NATURE OF THE ACTION

1. This action involves a massive fraud based on misappropriation and misuse of client assets by Sentinel Management Group, Inc. ("Sentinel"), a registered investment adviser based in Northbrook, Illinois. The fraud was devised by and carried out under the direction of Eric A. Bloom ("Bloom"), Sentinel's former President and Chief Executive Officer, and Charles K. Mosley ("Mosley"), Sentinel's former Senior Vice President and Head Trader.

2. Prior to its collapse in August 2007, Sentinel primarily managed short-term cash investment portfolios ("Client Portfolios") for various types of advisory clients, including

Futures Commission Merchants ("FCMs"), hedge funds, financial institutions, pension funds, and individuals. Sentinel promised its clients that (i) it would invest their assets in safe, highly-liquid cash management products, (ii) they would be able to redeem their investments and withdraw their funds on a same-day basis, (iii) Sentinel's Client Portfolios provided a higher rate of return than those offered by its competitors without subjecting clients to greater risk, and (iv) Sentinel held Client Portfolio assets in properly segregated accounts in accordance with applicable federal laws and regulations. Each day, Sentinel reinforced these representations by sending each of its clients a daily account statement that purported to show all of the securities in which the client had an interest, the rate of return generated by those securities, and the total value of the client's investment.

3. Beginning no later than 2003, however, Sentinel, through the actions of Bloom and Mosley, exposed its clients to substantial undisclosed risks by relying extensively on leveraging activities, using Client Portfolio assets contrary to stated investment objectives, and using Client Portfolio assets to finance risky trading for the benefit of Sentinel's house portfolio ("House Portfolio"), which was owned by Sentinel insiders, including Bloom and Mosley. As part of their fraud, Bloom and Mosley improperly used Client Portfolio assets to collateralize a bank line of credit to Sentinel (the "Line of Credit"), thus subjecting clients to the additional risk that the lender would assert a security interest in the assets and sell them if Sentinel could not meet its loan obligations.

4. Further, Bloom and Mosley concealed Sentinel's fraudulent conduct and provided false comfort to Sentinel's clients by causing Sentinel to issue misleading daily account statements that misrepresented Client Portfolio securities holdings and the source of the interest income and interest rate listed on those statements. The daily account statements also failed to

disclose that Sentinel had severely encumbered the Client Portfolio assets through its leveraging and borrowing activities.

5. Sentinel's extensive use of leverage and borrowing, combined with its promise to clients that they could redeem their investments on a same-day basis, created a business structure that made Sentinel and its clients vulnerable to a downturn in the credit markets.

6. That downturn came in the summer of 2007, when the credit markets tightened dramatically. The rapid deterioration in the credit markets significantly reduced the value and liquidity of the debt securities held in the Client Portfolios while also prompting a surge in client redemption requests. Because such a large amount of the Client Portfolio assets were tied up in Sentinel's leveraging strategy or being used to collateralize the Line of Credit, Sentinel could not satisfy client redemption requests. Sentinel ran out of cash to meet client redemptions and sent a letter informing clients that it was suspending redemptions. Shortly thereafter, Sentinel filed for Chapter 11 bankruptcy.

7. As a result of Defendants' fraudulent conduct, Sentinel has lost several hundred million dollars of the approximately $1.4 billion in Client Portfolio assets that Sentinel had under management at the time of its collapse.

8. Through the activities alleged in this Complaint, the Defendants, directly or indirectly, singly or in concert, have engaged in transactions, acts, practices or courses of business which constitute violations of Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)] and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. 9 78j(b)] and Rule 10b-5 [17 C.F.R. § 9240.10b-5] promulgated thereunder, or, in the alternative as to Bloom and Mosley, aiding and abetting of Sentinel's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

9. Additionally, Sentinel, directly or indirectly, has engaged in transactions, acts, practices, and courses of business which constitute violations of Sections 206(1), 206(2) and 206(4) of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. § 80b-6(1), 80b-6(2) and 80b-6(4)], and Rule 206 (4)-2 promulgated thereunder [17 C.F.R. 275.206(4)-2], and Bloom and Mosley have aided and abetted Sentinel's violations of these provisions.

10. Unless enjoined, the Defendants will continue to engage in transactions, acts, practices, and courses of business similar to those alleged in this Complaint.

JURISDICTION AND VENUE

11. The SEC brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)], Section 21(d)(1) of the Exchange Act [15 U.S.C. § 78u(d)(3)], and Section 209(d) of the Advisers Act [15 U.S.C. § 80b-9(d)]. The SEC seeks to permanently enjoin the Defendants from engaging in the wrongful conduct alleged in this Complaint and also seeks other relief, including disgorgement, prejudgment interest, and civil money penalties from Defendants Bloom and Mosley.

12. This Court has jurisdiction pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa], and Section 214 of the Advisers Act [15 U.S.C. § 80b-14].

13. Venue is proper in this Court pursuant to Section 22(a) of the Securities Act, Section 27 of the Exchange Act, and Section 214 of the Advisers Act.

14. The acts, practices and courses of business constituting the violations alleged herein occurred within the jurisdiction of the United States District Court for the Northern District of Illinois and elsewhere.

15. Defendants, directly and indirectly, have made use of the means and instrumentalities of interstate commerce and of the mails in connection with the acts, practices and courses of business alleged herein in the Northern District of Illinois and elsewhere.

DEFENDANTS

16. **Sentinel** is an Illinois corporation which during all relevant times had its principal place of business in Northbrook, Illinois. Sentinel has been registered with the SEC as an investment adviser since 1980. Sentinel is also registered with the Commodity Futures Trading Commission ("CFTC") as an FCM and is a member of the National Futures Association, a self-regulatory organization. On August 17, 2007, Sentinel filed for Chapter 11 bankruptcy and it is now under the control of a bankruptcy trustee (the "Trustee"). At around the time of Sentinel's bankruptcy, Sentinel managed accounts for around 70 clients and purported to have approximately $1.4 billion in assets under management.

17. **Bloom,** age 42, is a resident of Northbrook, Illinois. Bloom was the President and Chief Executive Officer of Sentinel from approximately October 1988 until August 2007. At all times relevant to this Complaint, Bloom controlled the day-to-day operations at Sentinel, including supervising Mosley.

18. **Mosley,** age 43, is a resident of Vernon Hills, Illinois. Mosley was Senior Vice President, Head Trader and portfolio manager of Sentinel from approximately October 2002 until August 16, 2007, when he was fired by Bloom. At all times relevant to this Complaint, Mosley was responsible for Sentinel's investing and trading activities. Mosley reported directly to Bloom.

FACTS

Sentinel's Client Portfolios

19. Sentinel offered clients the opportunity to participate in a variety of investment programs, each of which had its own investment policy designed to meet the requirements and preferences of different types of clients.

20. Sentinel represented that clients owned an indirect, pro rata interest in a particular Client Portfolio.

21. Regardless of which investment program a particular client chose, Sentinel purported to pool the client's assets with those of similar types of clients in one of three segregated client custodial accounts held at a custodial bank. The accounts were referred to within Sentinel as Seg 1, Seg 2 and Seg 3.

22. Seg 1 was set up to hold assets of registered FCMs with only domestic customer deposits. FCMs are futures brokers that are members of the NFA, and their investments are subject to the rules of the CFTC. The FCM customer deposit accounts are required to adhere to strict investment standards embodied in Rule 1.25 promulgated under the Commodities Futures Trading Act and are commonly referred to as "125 accounts."

23. Seg 2 was set up to hold assets of FCMs with foreign customer deposits (the Client Portfolios that Sentinel referred to internally as Seg 1 and Seg 2 will be referred to hereinafter collectively as the "FCM Client Portfolios").

24. Seg 3 was set up to hold assets of all other types of clients, including hedge funds, trust accounts, endowments and individuals (the Client Portfolio that Sentinel internally referred to as Seg 3 will be referred to hereinafter as the "Non-FCM Client Portfolio").

25. Sentinel entered into investment advisory agreements with each of its clients. From at least October 2004, Sentinel's standard investment advisory agreement provided that Sentinel had discretionary authority to buy and sell securities without requesting authority from the client before executing the trades. The agreement specified the investment policy that was to be used to invest the client's funds and explained the arrangements that Sentinel had established for the custody and segregation of client assets. It also established the management fee that Sentinel would be paid by the client for its services, which was typically a percentage of the daily assets under management and was deducted from the gross interest earned by the client each day.

Defendants Represented that Sentinel Only Invested
Client Portfolio Assets in Safe, Highly-Liquid Cash Management Products

26. To induce clients to invest in the Client Portfolios, Sentinel, Bloom, and Mosley represented to clients and prospective clients that Sentinel invested Client Portfolio assets in safe, highly-liquid cash management products, and that clients could redeem their investments on a same-day basis.

27. In written marketing materials provided to investors, Sentinel boasted that it consistently earned high yields on short-term investments without taking excessive risk. Sentinel stated that since its founding in 1979, Sentinel "never lost a dime of client funds, or delayed even one day in returning the full amount of a client's cash regardless of prevailing market conditions." According to these marketing materials, Sentinel bought "only the highest quality and most liquid securities (unless specifically directed by a client to seek a higher yield in somewhat lower quality issues)." Sentinel claimed that it did not "use derivatives, options, or any other 'financial engineering' techniques to enhance the yield on its portfolios." While

Sentinel stated that it strived "to obtain a high yield from all portfolios," it claimed that its primary emphasis was on "safety (low risk) and liquidity."

28. Sentinel's written marketing materials further explained that after clients invested cash with Sentinel, clients had "an indirect, undivided pro-rata ownership interest in a pool of high quality, liquid securities." Sentinel stated that the client statements reported to clients "the total amount invested, the interest earned, and supporting securities." Sentinel added that clients had "immediate daily access to 100% of their investment no matter how volatile market conditions become." Sentinel's marketing materials also represented generally that Client Portfolio assets were segregated in custodial accounts, consistent with the segregation requirements of the Advisers Act and other laws.

29. Sentinel also maintained a public website that described the services it provided to clients and, as late as August 14, 2007, represented that "Sentinel clients receive a daily account statement (by email or fax), which shows, down to the penny, precisely what securities they own."

30. Bloom and Mosley contributed information about Sentinel and the Client Portfolios for use in Sentinel's written marketing materials. Bloom, who had supervisory responsibility for the sales staff, reviewed the written marketing materials before they were provided to prospective clients.

31. Bloom and Mosley made oral representations to clients and prospective clients that were substantively identical to the written representations described in paragraphs 27 through 29 above.

32. For example, Bloom and Mosley frequently participated in due diligence meetings with prospective clients. At such meetings, Bloom and Mosley responded to questions

from prospective clients regarding Sentinel's business, Client Portfolio attributes, and risk. Among other things, prospective clients often asked questions about liquidity risk and the risk of a "run on the bank" at Sentinel. Bloom and Mosley responded to such questions by assuring prospective clients that Sentinel would be able to honor redemption requests submitted as late as 4 p.m. each day and that since its inception Sentinel had never been unable to meet redemptions.

33. As another example, Bloom was the primary contact for a client that held the largest interest in the Non-FCM Client Portfolios. In or around June or July 2005, Bloom was involved in negotiating a new contract with the client, which had been a Sentinel client for several years prior. Bloom and the client discussed the investment strategies for various Client Portfolios, as well as the risk and rate of return associated with them. In approximately August 2005, the client signed a new investment advisory agreement with Sentinel and invested in a Client Portfolio based on the representation that Sentinel would provide a satisfactory return with low risk. Subsequently, Bloom continued to communicate with the client regarding the performance and risks associated with the client's investment.

34. Even when Bloom and Mosley did not speak with clients directly, Bloom and Mosley provided information about Sentinel and the Client Portfolios to Sentinel's sales staff. The sales staff relied on information received from Bloom and Mosley in communicating with clients and prospective clients about Sentinel, Client Portfolio attributes, and risk.

Despite Their Representations to the Contrary, Defendants Actually Exposed Sentinel's Clients to Substantial Undisclosed Risk

35. Since its founding in 1979, Sentinel historically had invested Client Portfolio assets mostly in high quality, low-risk government and corporate debt securities. These investments met the strict criteria for investment of assets of Sentinel's FCM clients, who comprised the bulk of Sentinel's clients.

36. In 2003, shortly after Mosley joined Sentinel, he began using an undisclosed investment strategy that relied heavily on leverage in connection with securities that Sentinel sold pursuant to repurchase agreements, commonly known as "repo transactions" or "repos."

37. In a repo transaction, one party (effectively, the borrower) sells a security to a counterparty (effectively, the lender) with an agreement to repurchase the security at a higher price on a later date. Absent default, the income received on the coupon from the underlying securities over the term of the borrowing still belongs to the borrower. Economically, this arrangement is the equivalent of a collateralized loan.

38. Repo lenders do not lend the full value of the securities that collateralize the borrowing, but instead typically require a margin or over-commitment on the part of the borrower, known as a "haircut." The haircut is generally expressed as a percentage of the market price of the collateral, typically 3%-15% of the security's value.

39. Repos are commonly used to provide short-term liquidity in a cash management investment strategy. Instead of using repos merely as a periodic short-term liquidity tool, however, Mosley used the repos as part of a consistent leveraging strategy.

40. Sentinel generally acted as the borrower in repo transactions with open-end maturities, meaning that Sentinel sold securities with an agreement to repurchase them upon notice from the lending counterparty.

41. Mosley caused Sentinel to draw down on the Line of Credit in order to engage in repo transactions with newly purchased securities, which Sentinel never listed on client statements. Typically, Sentinel timed its repo transactions so that it simultaneously purchased a security from a broker and sold that security to a repo counterparty in a repo transaction. The repo counterparty paid the broker the amount that it was willing to lend Sentinel for the security

(i.e., the price of the security less the haircut), and Sentinel paid the broker the remaining cost of the security (i.e., the amount of the haircut) using funds drawn from the Line of Credit. Sentinel also used the Line of Credit to pay for other borrowing costs that the repo counterparty charged Sentinel.

42. By selling securities in repo transactions, Sentinel received the interest from the coupons on the securities that Sentinel sold. Sentinel profited from the spread between the interest that it received from the coupons on the securities involved in repo transactions and the borrowing costs associated with the repo transactions. Because Sentinel only had to pay the amount of the haircut and other relatively small borrowing costs to finance a repo transaction, Mosley was able to leverage Sentinel's assets significantly.

43. The amount and degree of Mosley's reliance on leverage in connection with repo transactions and drawdowns on the Line of Credit grew over time. As of December 31, 2003, Sentinel had sold approximately $242 million in securities in repos, had drawn down approximately $53 million on the Line of Credit (which Sentinel used primarily to finance repo transactions), and had cash and securities (almost entirely consisting of Client Portfolio securities) of approximately $770 million, resulting in a leverage ratio of approximately of 0.38 to 1. As of December 31, 2006, however, Sentinel had sold approximately $2.071 billion in repos, had drawn down approximately $231 million on the Line of Credit, and had cash and securities (almost entirely consisting of Client Portfolio securities) of $1.407 billion, resulting in a leverage ratio of approximately 1.63 to 1.

44. From at least 2003 through mid-August 2007, Mosley used this undisclosed investment strategy involving leverage and repo transactions to generate interest from repos so

that Sentinel could pay its clients higher interest rates than its competitors and thereby grow its assets under management and investment advisory fees.

45. During this period, Sentinel's assets under management grew from approximately $770 million to approximately $1.4 billion, partly as a result of the enhanced returns generated by Sentinel's undisclosed investment strategy.

46. The leveraging strategy greatly increased clients' exposure to a downturn in the credit markets, which could and ultimately did lead to reversals of these repo transactions. Among other things, the undisclosed leveraging substantially increased the risk that Sentinel could not fulfill its promise to meet redemption requests on a same-day basis, which was critical for many of Sentinel's clients.

47. During all times relevant, Bloom was aware of and authorized Mosley's use of the undisclosed investment strategy described in paragraphs 36 through 46 above.

48. As more fully described in paragraphs 57 through 66 below, Sentinel used Client Portfolio assets to collateralize the Line of Credit that Mosley used for leverage. Sentinel, Bloom and Mosley did not disclose Sentinel's significant use of Client Portfolio assets to collateralize the ever-increasing Line of Credit. Sentinel, Bloom, and Mosley thus subjected Sentinel's clients to additional undisclosed liquidity risk because the repo counterparties could force Sentinel to repurchase hundreds of millions of dollars of securities at any time, and Sentinel, having used Client Portfolio assets as collateral, did not have sufficient capital to repurchase the securities.

Mosley's Risky, Highly-Leveraged Trading in Sentinel's House Portfolio

49. Mosley also used a large amount of leverage for a trading strategy for Sentinel's House Portfolio, which was owned by Sentinel insiders, including Bloom and Mosley. Before the market downturn in summer 2007, this trading strategy yielded generous trading returns for the Sentinel insiders who held an interest in that portfolio.

50. While Sentinel's insiders invested less than $5 million of their own capital in the House Portfolio, Mosley regularly leveraged the House Portfolio at ratios of approximately 15:1-20:1, meaning that for every dollar that Sentinel's insiders invested in the House Portfolio, Sentinel borrowed $15-$20 for trading.

51. Mosley used this borrowing to make an eclectic group of investments in debt securities for the House Portfolio, including short positions on treasury notes, collateralized debt obligations, and structured debt instruments with esoteric payment structures and names such as "Ratchet Snowbears," "Ratchet Snowballs," and "Pretsls."

52. Mosley caused Sentinel to record huge returns for its leveraged trading in the House Portfolio. Sentinel recorded annualized gains of 100% or more in the House Portfolio.

53. Mosley's trading in the House Portfolio also benefited him through his compensation. Mosley received a base salary from Sentinel, as well as a bonus of 10% of the gains in the House Portfolio. Mosley did not receive a bonus based on returns in the Client Portfolios. During the relevant period, Mosley received bonuses totaling several hundred thousand dollars based on trading gains in the House Portfolio.

54. Sentinel financed its trading in the House Portfolio by drawing down on the Line of Credit, as further described in paragraphs 57 through 66 below.

55. Bloom was aware of Mosley's strategy and that Client Portfolio securities were used as collateral in furtherance of the strategy.

56. By using Client Portfolio securities to collateralize the Line of Credit for the benefit of the House Portfolio and by not disclosing this practice to clients, Sentinel, Bloom, and Mosley subjected clients to substantial, undisclosed risk without any corresponding benefit for the clients.

Defendants Misused Client Portfolio Securities to Collateralize Sentinel's Line of Credit

57. In furtherance of the fraud, Bloom and Mosley misused Client Portfolio securities to collateralize the Line of Credit. Bloom and Mosley caused Sentinel to draw down on the Line of Credit to finance Mosley's leveraging strategy and risky trading in the House Portfolio.

58. In order to use securities from the Client Portfolios to collateralize the Line of Credit, Bloom and Mosley caused the securities to be transferred from the segregated custodial accounts for the Client Portfolios into a different custodial account that served both as the account for collateral for the Line of Credit and as the custodial account for the House Portfolio.

59. Bloom's and Mosley's use of Client Portfolio securities to collateralize the Line of Credit resulted in Sentinel consistently commingling FCM Client Portfolio securities with Non-FCM Client Portfolio securities, as well as more generally commingling Client Portfolio securities with House Portfolio securities. The commingling of client assets and use of client assets to collateralize the Line of Credit was contrary to Sentinel's representations to clients.

60. The need to reduce the size of the loan was discussed at regular meetings of Sentinel senior management known as "Credit Committee Meetings," which were attended by Bloom and Mosley.

61. At least as early as late 2005, Bloom acknowledged to others within Sentinel that Sentinel's reliance on the Line of Credit and the use of Client Portfolio securities to collateralize the Line of Credit was a cause for concern.

62. For example, because Sentinel was required to disclose the size of the Line of Credit on its financial statements as of the last day of every year, Bloom expressed concern about the Line of Credit, as shown in a December 29, 2005 email from a Sentinel employee to Mosley: "[E]ric said no matter what we have to get it [the Line of Credit] down or we will lose about 700 million dollars from our current customers."

63. Similarly, in an October 19, 2006 email from a Sentinel employee to Bloom, the Sentinel employee suggested a meeting of Sentinel management to discuss, among other topics, the "[l]oan balance – and our goal to bring it down before year-end, and how this can be accomplished. Specifically to reiterate that using customer assets to secure the house loan may not be something that we want to be doing."

64. Instead of bringing down the balance on the Line of Credit, however, Bloom and Mosley caused the balance to increase to over $500 million in 2007, with Client Portfolio securities collateralizing the entire balance.

65. Bloom and Mosley never disclosed to clients that Sentinel was using Client Portfolio securities to collateralize the Line of Credit at any time up to and including August 13, 2007.

66. The failure to disclose the use of Client Portfolio securities to collateralize the Line of Credit caused the daily account statements that Sentinel issued to clients to be false and misleading. For example, the account statements sent to clients in the Non-FCM Client Portfolio on August 13, 2007 (the last day on which Sentinel sent account statements to clients) represented that the face value of the securities held in their accounts was, in the aggregate, more

than $670 million. In contrast, the account statement issued to Sentinel by its asset custodian on August 13 showed only approximately $94 million of securities held in the custodial account for the Non-FCM Client Portfolio. The discrepancy between the client account statements and the custodial account statement largely resulted from Sentinel's transfer of Client Portfolio securities from segregated client custodial accounts to the custodial account used to collateralize the Line of Credit. The client account statements reported no liabilities corresponding to these assets and did not disclose that Sentinel had pledged the vast majority of the securities listed on the statements as collateral for the Line of Credit.

Defendants Misrepresented How Sentinel Generated the Interest it Paid to Clients

67. As part of the fraud, Bloom and Mosley caused Sentinel to misrepresent how Sentinel generated the interest it paid to clients.

68. In client statements, Sentinel listed interest income and a net interest rate that the clients had earned on a particular day and suggested that the securities listed on the clients' statements had generated the interest. In fact, the interest earned by clients bore little relation to the securities listed on their statements, which could not and did not generate the entire returns listed on the statements.

69. Instead, unbeknownst to clients, Bloom and Mosley caused Sentinel to pool the total amount of interest earned by all of the Sentinel Portfolios, including the House Portfolio, on a particular day. They then allocated the interest to particular Client Portfolios based on certain benchmarks that they wanted to beat, such as the rates of return on money market funds offered by major institutions like Goldman Sachs and Merrill Lynch.

70. As an example, on June 19, 2007, Sentinel's daily rate worksheet listed the rates being offered by Sentinel's competitors, which ranged from 4.05%-5.23%. Accordingly, Bloom

and Mosley caused Sentinel to pay Client Portfolios interest rates ranging from 5.26%-6.85%, significantly beating the rates of Sentinel's competitors. Bloom and Mosley were able to beat Sentinel's competitors because of the interest generated by the securities sold in repo transactions.

71. Bloom and Mosley manually set the interest rates for the Client Portfolios, or directed their subordinates to do so, using a "Daily Yield/Rate Calculation Worksheet."

72. For example, on April 9, 2007, a Sentinel employee informed Bloom in an e-mail that "Charles [Mosley] told me earlier where he would like prime [the interest rate on Sentinel's "Prime Portfolio," which Sentinel marketed to Non-FCM clients] to be at today and to decrease fees in the house account to zero. Let me know if you don't like where these are at." Similarly, in an e-mail dated August 1, 2007, the same Sentinel employee advised Mosley that rates could go up by a specified amount and asked whether those rates should be distributed "more to [the] Prime [portfolio] or 125 [the 1.25] portfolio." She later informed Mosley that she had "bumped up Prime 20bps" and had raised the "1.25 portfolio by 10 basis points."

73. On some occasions, Bloom and Mosley caused Sentinel to divert interest earned by the Client Portfolios into the House Portfolio. After allocating interest to the Client Portfolios so that the interest rates reached Bloom's and Mosley's targets, Bloom and Mosley diverted the remaining interest to the House Portfolio.

74. As a result of Bloom's and Mosley's setting of the interest rates to achieve certain targets, the interest rates on the House Portfolio often fluctuated dramatically from one period to the next. For example, in early to mid-April the House Portfolio's interest rate surged to approximately 6%-20% at a time when the Client Portfolios consistently received interest in the 5%-6% range. Similarly, on June 19, 2007, while Sentinel paid its Client Portfolios rates

ranging from 5.26%-6.85%, as noted in paragraph 70 above, Sentinel paid the House Portfolio much higher interest rates, ranging from 6.85%-24.75%.

75. After Bloom or Mosley approved the interest rates for a particular day, Sentinel reflected the interest rates on client statements in the form of a net interest rate. This interest rate was materially misleading because: (i) the interest rate bore little correlation to the securities listed on the clients' statements; (ii) the interest rates were determined by Bloom or Mosley based on their target interest rates for the various Client Portfolios, not on the interest actually earned by the securities in any particular Client Portfolio; and (iii) the interest rate was achieved in part by the undisclosed use of leverage in connection with repos.

76. Many clients made additional investments after receiving false and misleading client statements from Sentinel.

Sentinel and Mosley Misrepresented the Cost Basis Of the Securities Listed on Client Statements

77. Mosley also caused Sentinel to misrepresent the cost basis of the securities listed on client statements. The client statements purported to show the cost basis of every security listed on the statement next to the current market price of the security. In fact, Mosley simply made up the cost basis of the securities that Sentinel listed on client statements. He fabricated a cost basis of the security to reflect a cost basis less than the current market price so that no security listed on the client statements ever showed a decline in value.

Sentinel Collapses Under the Weight of Its Excessive Leveraging and Borrowing

78. Sentinel suffered a liquidity crisis in mid-2007 and ultimately collapsed under the weight of its leveraging of capital.

79. In approximately June 2007, a repo counterparty with which Sentinel had over $1 billion in outstanding repos began closing out its repos with Sentinel, mostly based on the decline in the market value of the collateralized debt obligations and other securities that Sentinel had sold in the repo transactions. In July 2007, another repo counterparty, with which Sentinel had approximately $600 million in outstanding repos, also began closing out repos with Sentinel.

80. To raise cash to repay the repo counterparties, Sentinel began selling off securities. Because of the poor credit environment, Sentinel could not find a market for many of its lower-grade securities. Thus, Sentinel began to sell off higher-rated debt securities, which Sentinel mostly had held in Client Portfolios and listed on client statements. Once Sentinel sold its Client Portfolio securities, Sentinel did not have sufficient securities to match the total values of its Client Portfolios, so Mosley caused Sentinel to fabricate private placement securities and cash to list on client statements.

81. Sentinel also drew on the Line of Credit to pay off the repo counterparties, causing the outstanding amount of the Line of Credit to balloon to over $500 million. As Bloom and Mosley knew, Sentinel collateralized the entire $500 million amount of the Line of Credit with Client Portfolio securities.

82. At the direction of Mosley, Sentinel completely disregarded segregation of Client Portfolio and House Portfolio custodial accounts and shifted securities back and forth between accounts to try to keep Sentinel afloat.

83. On or around August 13, Sentinel tapped out its sources of funds, including the Line of Credit, and ran out of cash to meet client redemptions.

84. On August 13, Bloom drafted a letter to inform clients that Sentinel was halting redemptions. The letter, which was sent to clients by e-mail that same day, stated that Sentinel

was halting all redemptions due to the "liquidity crisis" in the credit markets. The letter further stated that the "liquidity crisis" prevented Sentinel from meeting redemption requests "without selling securities at deep discounts to their fair value and therefore causing unnecessary losses" to clients.

85. Sentinel's and Bloom's explanation in the August 13 letter for halting redemptions was false and misleading. The letter blamed Sentinel's liquidity problems on market conditions and resulting investor fear and panic. In fact, for at least several months, Sentinel had been suffering undisclosed losses, and subjecting its clients to undisclosed losses and risks of losses, due to its use of leverage, excessive borrowing, and commingling and misuse of Client Portfolio securities. None of these factors that were largely responsible for Sentinel's inability to honor client redemption requests were mentioned in the August 13 letter.

86. Sentinel also issued its last client account statements by e-mail on August 13, 2007. Bloom authorized the distribution of the August 13 client account statements even though he knew that the statements listed hundreds of millions of dollars in securities that were either not held by Sentinel at all or were held in the custodial account being used to collateralize the Line of Credit.

87. On August 17, 2007, Sentinel's lender faxed a letter to Sentinel addressed to Bloom stating that Sentinel was in default under the terms of the credit agreement for the Line of Credit, and, therefore, the lender had the right to sell the securities that had been pledged as collateral. The securities that the lender asserted a right to sell included securities that Sentinel had listed on client account statements even though the securities had been transferred out of the custodial accounts for the Client Portfolios to collateralize the Line of Credit.

88. Sentinel filed for Chapter 11 bankruptcy on August 17, 2007.

COUNT I
(Against All Defendants)

Violations of Section 17(a)(1) of the Securities Act

89. Paragraphs 1 through 88 are realleged and incorporated by reference.

90. At the times alleged in this Complaint, Defendants, in the offer and sale of securities, by the use of the means and instruments of transportation and communication in interstate commerce and by the use of the mails, directly and indirectly, have employed devices, schemes and artifices to defraud.

91. In the offer and sale of securities and as part of the scheme to defraud, Defendants made false and misleading statements of material fact and omitted to state material facts to clients and prospective clients as more fully described above.

92. Defendants engaged in the conduct alleged herein knowingly or with reckless disregard for the truth.

93. By reason of the foregoing, Defendants violated Section 17(a)(1) of the Securities Act of 1933 [15 U.S.C. § 77q(a)(1)].

COUNT II
(Against All Defendants)

Violations of Section 17(a)(2) and 17(a)(3) of the Securities Act

94. Paragraphs 1 through 88 are realleged and incorporated by reference herein.

95. As described above, Defendants, in the offer or sale of securities, by use of means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly: (a) obtained money or property by means of untrue statements of a material fact or omitted 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 (b) engaged in

transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon the purchaser.

96. Defendants acted at least negligently with respect to the facts and circumstances described above.

97. By reason of the foregoing, Defendants violated Section 17(a)(2) and (3) of the Securities Act of 1933 [15 U.S.C. § 77q(a)(2) and (3)].

COUNT III
(Against All Defendants)

Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder

98. Paragraphs 1 through 88 are realleged and incorporated by reference herein.

99. At the times alleged in the Complaint, Defendants, in connection with the purchase and sale of securities, by the use of the means and instrumentalities of interstate commerce and of the mails, directly and indirectly, have employed devices, schemes and artifices to defraud; have made untrue statements of material fact and have omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and have engaged in acts, practices and courses of business which have operated as a fraud and deceit upon purchasers and sellers of such securities.

100. Defendants engaged in the conduct alleged herein knowingly or with reckless disregard for the truth.

101. By reason of the foregoing, Defendants violated Section 10(b) of the Exchange Act [15 U.S.C. 9 78j(b)] and Rule 10b-5 [17 C.F.R. § 9240.10b-5] promulgated thereunder.

COUNT IV
(Against Defendants Bloom and Mosley)

In the Alternative, Aiding and Abetting Violations of Section 10(b) of The Exchange Act and Rule 10b-5 Thereunder

102. Paragraphs 1 through 88 and 99 through 101 are realleged and incorporated by reference herein.

103. By engaging in the conduct alleged above, Defendants Bloom and Mosley knowingly or recklessly provided substantial assistance to Sentinel in its violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

104. By engaging in the conduct alleged above, Defendants Bloom and Mosley aided and abetted Sentinel's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

COUNT V
(Against Defendant Sentinel)

Violations of Sections 206(1) and 206(2) of the Advisers Act

105. Paragraphs 1 through 88 are realleged and incorporated by reference herein.

106. Defendant Sentinel, while acting as an investment adviser, by the use of the means and instrumentalities of interstate commerce and of the mails, directly and indirectly, has employed devices, schemes and artifices to defraud its clients and prospective clients; and has engaged in transactions, practices and courses of business which operate as a fraud or deceit upon its clients and prospective clients.

107. By reason of the foregoing, Defendant Sentinel violated Sections 206(1) and (2) of the Advisers Act [15 U.S.C. § 80b-6(1) and 80b-6(2)].

COUNT VI
(Against Defendants Bloom and Mosley)

Aiding and Abetting Violations of Sections 206(1) and 206(2) of the Advisers Act

108. Paragraphs 1 through 88 and 106 through 107 are realleged and incorporated by reference herein.

109. Defendants Bloom and Mosley knowingly or recklessly provided substantial assistance to Sentinel in its violations of Sections 206(1) and (2) of the Advisers Act.

110. By reason of the foregoing, Defendants Bloom and Mosley aided and abetted Sentinel's violations of Section 206(1) and 206(2) of the Advisers Act.

COUNT VII
(Against Defendant Sentinel)

Violations of Section 206(4) of the Advisers Act and Rule 206(4)-2 Thereunder

111. Paragraphs 1 through 88 are realleged and incorporated by reference herein.

112. Defendant Sentinel, while acting as an investment adviser, by use of the mails or the means or instrumentalities of interstate commerce, directly or indirectly, engaged in acts, practices or courses of business which are fraudulent, deceptive or manipulative, as those terms have been defined by the SEC by rules and regulations, by taking custody of client funds or securities that were not maintained in a separate client account for each client under that client's name; or in accounts that contain only the clients' funds and securities, under Defendant Sentinel's name as agent or trustee for the clients.

113. By reason of the foregoing, Sentinel violated Section 206(4) of the Advisers Act [15 U.S.C. § 80b-6(4) and Rule 206(4)-2 [17 C.F.R. 275.206(4)-2] thereunder.

COUNT VIII
(Against Defendants Bloom and Mosley)

Aiding and Abetting Violations of Section 206(4) of the Advisers Act and Rule 206(4)-2 Thereunder

114. Paragraphs 1 through 88 and 112 though 113 are realleged and incorporated by reference herein.

115. Defendants Bloom and Mosley knowingly or recklessly provided substantial assistance to Sentinel in its violations of Sections 206(4) of the Advisers Act and Rule 206(4)-2 thereunder.

116. By reason of the foregoing, Defendants Bloom and Mosley aided and abetted Sentinel's violations of Section 206(4) of the Advisers Act and Rule 206(4)-2 thereunder.

PRAYER FOR RELIEF

WHEREFORE, the SEC respectfully requests that this Court:

I.

Find that Defendants Sentinel, Bloom, and Mosley committed the violations charged and alleged herein.

II.

Grant Orders of Permanent Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, restraining and enjoining:

(1) Defendant Sentinel and its officers, agents, servants, employees, attorneys and those persons in active concert or participation with them who receive actual notice of the Order of Permanent Injunction, by personal service or otherwise, and each of them, from, directly or indirectly, violating Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder,

and Sections 206(1), 206(2) and 206(4) of the Advisers Act and Rule 206(4)-2 thereunder;

(2) Bloom and his agents, attorneys, and all persons in active concert or participation with them who receive actual notice of the Order of Permanent Injunction, by personal service or otherwise, and each of them, from, directly or indirectly, violating Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, or in the alternative, aiding and abetting violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and from aiding and abetting violations of Sections 206(1), 206(2) and 206(4) of the Advisers Act and Rule 206(4)-2 thereunder; and

(3) Mosley and his agents, attorneys, and all persons in active concert or participation with them who receive actual notice of the Order of Permanent Injunction, by personal service or otherwise, and each of them, from, directly or indirectly, violating Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, or in the alternative, aiding and abetting violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and from aiding and abetting violations of Sections 206(1), 206(2) and 206(4) of the Advisers Act and Rule 206(4)-2 thereunder.

III.

Issue an Order requiring Defendants Bloom and Mosley to disgorge all profits or ill-gotten gains that they have received as a result of the acts and courses of conduct complained of herein, with prejudgment interest.

IV.

Issue an Order directing Defendants Bloom and Mosley to pay civil fines and/or 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)].

V.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

VI.

Grant Orders for such further relief as the Court may deem appropriate.

Dated: June 16, 2008

Respectfully submitted,

/s/ Andrea R. Wood
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CERTIFICATE OF SERVICE

I, Andrea R. Wood, hereby certify that, on June 16, 2008, I caused a copy of the foregoing **Amended Complaint** to be served upon the following counsel by the Court's CM/ECF system:

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