UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, v. MARTIN J. DRUFFNER, JUSTIN F. FICKEN, SKIFTER AJRO, JOHN S. PEFFER, MARC J. BILOTTI and ROBERT E. SHANNON, Defendants.	Civil Action No. 03-12154-NMG

AMENDED COMPLAINT

Plaintiff Securities and Exchange Commission (the "Commission") alleges the following against defendants Martin J. Druffner, Justin F. Ficken, Skifter Ajro, John S. Peffer, Marc J. Bilotti, and Robert E. Shannon:

SUMMARY

1. Defendants Druffner, Ficken, Ajro, Peffer and Bilotti were brokers in a Boston branch office of Prudential Securities, Inc. ("PSI"). (Druffner, Ficken, Ajro, Peffer and Bilotti are hereafter referred to as the "defendant brokers".) From at least January 2001 until they resigned in September 2003, they defrauded more than fifty mutual fund companies and the funds' shareholders in order to engage in thousands of "market timing" trades worth more than a billion dollars. Defendant Shannon, who also resigned in September 2003, was the manager of

the PSI Boston branch, and he substantially assisted the brokers' fraudulent scheme. The broker defendants profited handsomely from their misconduct. Between January 2001 and September 2003, the brokers' market timing generated more than $4.6 million in net commissions for Druffner, Ficken and Ajro, and more than $600,000 in net commissions for Peffer and Bilotti.

2. "Market timing" refers to the practice of short-term buying, selling and exchanging of mutual fund shares in order to exploit inefficiencies in mutual fund pricing. Market timing, while not illegal *per se*, can adversely affect mutual fund shareholders because it can dilute the value of their shares to the extent that a timer is permitted to buy and sell shares rapidly and repeatedly. In addition, market timing increases transaction costs for the fund, and substantial redemptions by a market timer may force a portfolio manager to liquidate certain fund holdings under unfavorable circumstances. Consequently, mutual fund companies typically monitor activity in their funds' shares and impose quantitative or qualitative restrictions on excessive trading.

3. Each of the defendant brokers knew that the fund companies monitored activity in their funds and imposed restrictions on excessive trading. To conceal their own identities and the identities of their clients, the defendant brokers each used numerous broker identification numbers (called "FA numbers" at PSI), and together they opened nearly two hundred customer accounts under fictitious names. The brokers' use of multiple accounts and FA numbers was intended to, and did, make it more difficult for the fund companies to detect their clients' market timing, thus misleading the fund companies to process transactions they would otherwise have rejected. Due to the sheer volume and frequency of the brokers' transactions, the fund companies did manage to identify certain accounts and FA numbers as engaged in market timing.

Between January 2001 and September 2003, the fund companies at issue sent more than a thousand letters and emails to PSI imposing blocks on further market timing activity by the brokers. However, on dozens of occasions, each of the brokers used FA numbers and customer accounts that had not yet been blocked to evade the restrictions on their activity and to continue placing market timing transactions for their clients. Shannon substantially assisted the brokers' scheme by approving new customer accounts and new FA numbers, approving the transfer of cash between accounts, authorizing the processing of overflow timing transactions, and failing to enforce PSI's policies against market timing. The brokers' scheme did not fully unravel until PSI was acquired by another company, which took steps to curtail market timing activity throughout the firm in September 2003.

4. Through the activities alleged in this Complaint, defendants Druffner, Ficken, Ajro, Peffer and Bilotti: (a) violated Section 17(a) of the Securities Act of 1933 ("Securities Act"); and (b) violated Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder or, in the alternative, aided and abetted the uncharged violations of Section 10(b) and Rule 10b-5 by their principal clients. In addition, defendant Shannon aided and abetted the other defendants' violations of Section 10(b) and Rule 10b-5.

5. Accordingly, the Commission seeks: (a) entry of a permanent injunction prohibiting the defendants from further violations of the relevant provisions of the Securities Act, the Exchange Act, and the rules thereunder; (b) disgorgement of all ill-gotten gains, plus prejudgment interest; and (c) the imposition of a civil penalty against each defendant due to the egregious nature of their violations.

JURISDICTION

6. The Commission seeks a permanent injunction and disgorgement of ill-gotten gains pursuant to 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)]. The Commission seeks the imposition of civil 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)].

7. This Court has jurisdiction over this action pursuant to Sections 20(d) and 22(a) of the Securities Act [15 U.S.C. §§77t(d), 77v(a)] and Sections 21 and 27 of the Exchange Act [15 U.S.C. §§78u, 78aa]. Many of the acts and transactions alleged in this Complaint occurred in this District, and each of the defendants resides in this District.

8. In connection with the conduct described in this Complaint, the defendants directly or indirectly made use of the mails or the means or instruments of transportation or communication in interstate commerce.

DEFENDANTS

9. **Druffner**, age 35, joined PSI in 1996. During the relevant period, he was a broker at PSI and led a group of brokers at the Boston branch which handled market timing for five principal clients (hereafter, the "Druffner Group"). He lives in Hopkinton, Massachusetts.

10. **Ficken,** age 29, joined PSI in 1999. During the relevant period, he was a broker at PSI and a member of the Druffner Group. He lives in Boston, Massachusetts.

11. **Ajro**, age 35, joined PSI in April 2001. During the relevant period, he was a broker at PSI and a member of the Druffner Group. He lives in Milford, Massachusetts.

12. **Peffer**, age 41, joined PSI in 1995. During the relevant period, he was a broker at PSI and led a pair of brokers at the Boston branch which handled market timing for two principal clients (hereafter, the "Peffer Group"). He lives in Newburyport, Massachusetts.

13. **Bilotti**, age 34, joined PSI in 1999. During the relevant period, he was a broker at PSI and a member of the Peffer Group. He lives in Charlestown, Massachusetts.

14. **Shannon**, age 52, joined PSI in 1996. He became manager of the Boston branch in December 2001. He lives in Brookline, Massachusetts.

RELATED PARTIES

15. Prior to July 1, 2003, **Prudential Securities, Inc.** ("PSI") was a wholly-owned broker-dealer subsidiary of **Prudential Financial, Inc.** ("Prudential Financial"). Prudential Financial is a publicly-owned holding company, traded on the New York Stock Exchange, whose operating subsidiaries include insurance brokers and investment managers. On July 1, 2003, Prudential Financial transferred its ownership of PSI to **Wachovia Securities, LLC**, a joint venture subsidiary of **Wachovia Corporation** and Prudential Financial.

16. During the relevant period, **Prudential Investments, Inc.** ("PI"), one of Prudential Financial's other subsidiaries, managed a family of Prudential's proprietary mutual funds (the "Prudential Funds"). PI also managed a "wrap fee" program known as PruChoice. (A "wrap fee" program is an investment program that bundles or "wraps" a number of brokerage, advisory, research, consulting and management services together and charges for these services with a single fee based on the value of assets under management.) PSI brokers could arrange for their clients to buy and sell mutual funds offered by other fund companies through PruChoice on a wrap fee basis or outside PruChoice on a straight commission basis.

STATEMENT OF FACTS

General Description of the Fraudulent Scheme

17. Although it was comprised of thousands of separate transactions, the defendant brokers' fraudulent scheme was really quite simple. They had clients who wanted to buy and exchange millions of dollars of mutual fund shares on a very short-term basis. They knew that the mutual fund companies at issue monitored trading in their funds and imposed qualitative or quantitative restrictions on the frequency of purchases and exchanges. They knew that, if they placed their clients' thousands of purchases and exchanges using a single customer account and FA number for each client, it was highly likely that the fund companies would reject the transactions as excessive. As a result, the brokers devised a scheme to conduct their clients' trading through dozens of customer accounts (almost always under a fictitious name) and multiple FA numbers and thus make it difficult for the fund companies to detect and limit the clients' market timing. Then, on those occasions when the fund companies did block certain accounts or FA numbers from further activity due to excessive trading, the brokers used the many accounts and FA numbers that had not yet been blocked to evade those restrictions and continue trading in the same companies' funds.

18. The defendant brokers each made false statements to the mutual fund companies by using fictitious names on the customer accounts. The brokers each made omissions of material fact by failing to disclose to the fund companies that the numerous accounts through which they traded actually belonged to the same clients, and the numerous FA numbers through which they placed the trades actually belonged to the same teams of brokers, who had previously been blocked. The brokers each engaged in a fraudulent and deceptive scheme because the use

of multiple accounts and multiple FA numbers was designed to – and did – mislead the fund companies into accepting transactions they would not have accepted if they had known the truth – namely, that what appeared to be thousands of separate transactions submitted by numerous brokers for dozens of unrelated customers was actually a systematic pattern of market timing by two teams of brokers for a handful of clients, and, even worse, that the brokers and clients had already been blocked for excessive trading by the same fund companies.

The Brokers and Their Clients

19. The Druffner Group (Druffner, Ficken and Ajro) had five principal clients for whom they placed market timing trades. Headstart Advisers Ltd. ("Headstart"), based in the United Kingdom, opened its first account with Druffner in July 1999. Chronos Asset Management ("Chronos"), based in Cambridge, Massachusetts, opened its first account with Druffner in January 2000. Pentagon Asset Management ("Pentagon"), based in the United Kingdom, opened its first account with Druffner in March 2000. Ritchie Capital ("Ritchie"), based in Illinois, opened its first account with Druffner in December 2000. Jemmco Advisers ("Jemmco"), based in New York, opened its first account with Druffner in April 2002. Each of the Druffner Group's clients acted as an investment adviser for one or more hedge funds whose funding came from a variety of sources, including overseas banks such as Canadian Imperial Bank of Commerce, Credit Lyonnais, Dresdner Bank, and Zurich Capital.

20. The Peffer Group (Peffer and Bilotti) had two principal clients for whom they placed market timing trades. Global Analytical Capital ("Global"), based in Salem, Massachusetts, opened its first account with Peffer in May 1998. Global acted as an investment adviser for hedge funds based in the Netherlands Antilles. Summa Capital ("Summa"), also

based in Salem, Massachusetts, opened its first accounts with Peffer in February 2003. Summa acted as an investment adviser for a hedge fund based in the Cayman Islands.

21. The clients invested in U.S. mutual funds, but this was not long-term, buy-and-hold investing. Rather, the clients routinely purchased shares in one or two funds offered by a fund complex and then began exchanging into other funds within that complex on a weekly and sometimes daily basis. Each client made its decisions to purchase and exchange shares in certain mutual funds based on proprietary quantitative analysis of current market trends. The defendant brokers played no role in the clients' quantitative analyses, but they did recommend mutual funds or fund companies that might suit the clients' investment needs.

<u>The Brokers' Role in Placing Transactions for Their Clients</u>

22. The clients' investment activities generated hundreds, if not thousands, of separate transactions on most days. Headstart typically sent a facsimile to the Druffner Group in the morning listing hundreds of mutual fund transactions which it might do that day, and it then called the Druffner Group at around 3:30 p.m. EST (shortly before the close of trading at 4:00 p.m.) to "activate" certain of those trades. The other clients typically called the defendant brokers in the middle or late afternoon to identify dozens of mutual fund transactions to be placed that day. Information about the transactions (including the account number and FA number) was then entered into a computer system at PSI (called "BOSS 3000"), from which the trade information was conveyed to the fund companies for execution. Sometimes, the volume of transactions was too large to be entered by the Boston branch before 4:00 p.m. When that happened, the unfinished transactions were faxed to PSI's Mutual Fund Operations unit in New York for processing.

23. The members of the Druffner Group – Druffner, Ficken, and Ajro (after he joined PSI in April 2001) – agreed to work together to handle their clients' market timing activity and to split the commissions from their clients' mutual fund purchases. Indeed, virtually all the Druffner Group's commissions from purchases for these clients were split in the same manner – 70% for Druffner, 20% for Ficken, and 10% for Ajro. Druffner, Ficken and Ajro each entered some of the clients' transactions into the BOSS 3000 computer system, and so did several members of the Boston branch's administrative staff working under their supervision. Although PSI's records do not identify which person entered each specific transaction into the computer system, Druffner, Ficken and Ajro are each responsible for all of the transactions for the Druffner Group's clients, because all the transactions were made pursuant to their agreement and because they shared in the financial benefit from all the transactions.

24. The members of the Peffer Group – Peffer and Bilotti – agreed to work together to handle their clients' market timing activity and to split the commissions from their clients' mutual fund purchases. Peffer and Bilotti each entered some of the clients' transactions into the BOSS 3000 computer system, as did several members of the Boston branch's administrative staff working under their supervision. Although PSI's records do not identify which person entered each specific transaction into the computer system, Peffer and Bilotti are each responsible for all of the transactions for the Peffer Group's clients, because all the transactions were made pursuant to their agreement and because they shared in the financial benefit from all the transactions.

The Brokers' Use of Multiple FA Numbers

25. Each PSI broker was assigned an FA number ("FA" was shorthand at PSI for "financial adviser" or broker), and those numbers were used to open customer accounts, execute

securities transactions, and track commissions. Although the Druffner Group and the Peffer Group each effectively functioned as a single unit, they used many different FA numbers when opening new accounts and placing transactions for their market timing clients.

26. The Druffner Group (Druffner, Ficken and Ajro) used thirteen FA numbers to place transactions for their market timing clients. These included a primary number for each of them, a second (so-called "also") number for each of them, and seven joint numbers:

Date Issued	*FA #*	*Broker(s)*
unknown	14	Druffner
2/2/00	MD	Druffner "also"
3/2/00	15	Ficken
7/17/00	DF	Druffner/Ficken (joint)
5/4/01	50	Ajro
6/14/01	78	Druffner/Ficken/Ajro (joint)
10/19/01	B6	Ficken "also"
10/24/01	AF	Ajro/Ficken (joint)
10/25/01	M5	Ajro "also"
2/14/02	AD	Ajro/Druffner (joint)
8/27/02	FD	Ficken/Druffner (joint)
9/3/02	DA	Druffner/Ajro (joint)
1/8/03	23	Ficken/Ajro (joint)

27. The Peffer Group (Peffer and Bilotti) used six FA numbers to place transactions for their market timing clients. These included a primary number for each of them, a joint number for the pair of them, and three numbers associated with two other PSI brokers – John Day, who was not affiliated with the Group and who retired in June 2003, and Matthew Gaffney, who likewise was not affiliated with the Group and who left the Boston branch in May 2002:

Date Issued	*FA #*	*Broker(s)*
unknown	05	Day
unknown	41	Bilotti
unknown	49	Peffer
unknown	86	Gaffney
unknown	J1	Peffer/Day (joint)
11/17/00	J3	Peffer/Bilotti (joint)

28. Joint FA numbers were sometimes used at PSI to facilitate the splitting of commissions for different clients, but the defendant brokers did not use their joint FA numbers for that purpose. For example, as noted above, regardless of the FA number which the Druffner Group submitted to the fund companies when purchasing fund shares, virtually all of the Group's commissions from those purchases were split in the same manner – 70% to Druffner, 20% to Ficken, and 10% to Ajro. Similarly, the FA numbers which the Peffer Group submitted to the fund companies when purchasing fund shares did not necessarily correspond to the actual allocation of their commissions. Indeed, Peffer often received the bulk of the commission even when a purchase was placed using Bilotti's primary FA number.

<u>The Brokers' Use of Multiple Customer Accounts</u>

29. The defendant brokers used nearly two hundred customer accounts for their clients' market timing. Apart from the initial accounts for Headstart and a few accounts for Global and Pentagon, nearly all the accounts bore the names of fictitious entities that had no relation to the client's actual name. Also, the account numbers used three different prefixes for the Boston branch (0BB, 041 and ERS), thus compounding the illusion that the numerous accounts belonged to different customers.

a. The Druffner Group used 79 customer accounts for Headstart:

Date opened	*Account #*	*Account name*
7/7/99	0BB-96488	Headstart Fund B-P1
7/23/99	0BB-96523	Headstart Fund B-P2
7/23/99	0BB-96524	Headstart Fund B-P3
7/23/99	0BB-96525	Headstart Fund B-P4
9/23/99	0BB-96552	Headstart Fund B-P5
11/18/99	0BB-96582	Headstart Fund B-P6
12/30/99	0BB-96603	Headstart Fund B-P7
2/2/00	0BB-96615	CIBC Cayman CP-1
4/14/00	0BB-96640	CIBC Cayman CP-2
5/4/00	0BB-96652	Headstart Fund B-P8
5/9/00	0BB-96653	CIBC Cayman CP-3
6/13/00	0BB-96662	Headstart Fund B-P9
6/15/00	0BB-96665	CIBC Cayman CP-4
7/18/00	0BB-96677	CIBC Cayman CP-5
9/13/00	0BB-96694	CIBC Cayman CP-6
9/13/00	0BB-96695	Headstart Fund B-P10
11/20/00	0BB-96708	CIBC Cayman CP-7
11/22/00	0BB-96709	Headstart Fund B-P11
12/18/00	0BB-96727	Headstart Fund B-P12
12/22/00	0BB-96732	Headstart Fund B-P14
1/24/01	0BB-96746	Headstart Fund B-P15
2/1/01	0BB-96749	CIBC Cayman CP-8
2/15/01	041-96586	Isis 401 Limited 1
2/28/01	041-96587	Mandrake 401 Limited 1
3/14/01	041-96588	Isis 401 Limited 2
3/15/01	041-96589	Mandrake 401 Limited 2
3/15/01	041-96590	Isis 401 Limited 3

Date opened	*Account #*	*Account name*
3/28/01	041-96591	Apollo 1
4/5/01	041-96592	CIBC Cayman CP-9
4/18/01	041-96595	Apollo 2
4/25/01	ERS-95308	Aquilla 401 Limited 1
4/27/01	041-96596	Mandrake 401 Limited 3
6/5/01	ERS-95309	Mercutio 401 Limited 1
6/5/01	0BB-96784	Oberon 401 Limited 1
6/15/01	041-96599	CIBC Cayman CP-10
7/2/01	041-96600	Isis 401 Limited 4
7/2/01	ERS-95310	Mercutio 401 Limited 2
7/2/01	ERS-95311	Aquilla 401 Limited 2
7/2/01	0BB-96790	Oberon 401 Limited 2
8/10/01	0BB-96798	Oberon 3
8/10/01	041-96603	Apollo 3
8/17/01	041-96609	CIBC Cayman CP-11
9/5/01	041-96611	Isis 401 Limited 5
9/5/01	ERS-95314	Aquilla 401 Limited 3
10/9/01	041-96613	CIBC Cayman CP-12
10/31/01	ERS-95320	Levi 401 Limited 1
10/31/01	ERS-95321	Levi 401 Limited 2
12/5/01	ERS-95322	Mercutio 401 Limited 3
1/7/02	041-96615	Levi 401 Limited 3
1/7/02	ERS-95326	Mandrake 401 Limited 4
1/31/02	ERS-95329	Apollo 4
1/31/02	041-96616	Oberon 401 Limited 4
2/5/02	ERS-95330	Windsor 401-1 Limited
2/5/02	ERS-95331	Windsor 401-2 Limited
3/4/02	041-96617	Levi 401 Limited 4
3/4/02	ERS-95332	Mercutio 401 Limited 4

Date opened	*Account #*	*Account name*
3/5/02	0BB-96847	Windsor 401-3
9/19/02	ERS-95340	Ratings Holdings
9/24/02	0BB-96870	Credit Lyonnais
10/21/02	041-96627	Credit Lyonnais
11/27/02	ERS-95343	CIBC Cayman CP-14
12/2/02	ERS-95347	Credit Lyonnais
12/5/02	0BB-96880	Aquilla 401-4
12/5/02	041-96628	Atlantis 401-2
12/5/02	ERS-95348	Mandrake 401-5
12/5/02	0BB-96883	Atlantis 401-1
12/5/02	ERS-95349	Atlantis 401 Limited 3
1/6/03	0BB-96899	Credit Lyonnais
1/6/03	ERS-95352	Credit Lyonnais
1/10/03	041-96902	Credit Lyonnais
1/10/03	0BB-96902	Credit Lyonnais
2/27/03	041-83558	Marks Securities
2/27/03	ERS-05763	Spencer Securities
3/4/03	ERS-05764	Marks Securities II
3/4/03	041-83559	Spencer Securities II
3/4/03	ERS-05765	Ratings Holdings
5/2/03	0BB-23942	Galahad Securities
5/7/03	0BB-96934	Credit Lyonnais
5/7/03	ERS-95357	Credit Lyonnais

b. The Druffner Group used thirty accounts for Pentagon:

Date opened	*Account #*	*Account name*
3/13/00	0BB-19959	Pentagon Perf. Partners
3/13/00	0BB-19960	Pentagon Mgmt. Partners

Date opened	*Account #*	*Account name*
1/29/01	0BB-96748	Pentagon Perf. Partners
2/28/01	0BB-96758	Pentagon Mgmt. Partners
4/6/01	041-96593	Pentagon Perf. Partners
4/6/01	041-96594	Pentagon Perf. Partners
5/24/01	041-96597	PPP 4
5/24/01	041-96598	PMP 4
6/7/01	0BB-96785	Management 5
8/3/01	041-96602	P 5
8/17/01	041-96610	P 6 (PPP6)
8/28/01	ERS-95312	MP6
8/29/01	ERS-95313	P 7
10/4/01	ERS-95318	Perf 8
10/16/01	ERS-95319	Man 7
12/6/01	ERS-95323	Pent. Perf. 9
12/6/01	ERS-95324	PMP 401-8
12/27/01	ERS-95325	PMP 401(9)
1/10/02	ERS-95327	M 10
1/10/02	ERS-95328	P 10
4/17/02	ERS-95336	PMP 11 Limited
4/17/02	ERS-95337	Performance 401-11
11/7/02	ERS-95341	Management 401-12
11/7/02	0BB-96877	Performance 12 401
12/23/02	ERS-95351	Performance Limited 13
12/23/02	0BB-96889	Management LTD 13
2/27/03	ERS-95355	Pentagon Perform 14
2/27/03	0BB-96919	Pentagon Mgmt. 14
2/27/03	ERS-95356	Pentagon Mgmt. 15
2/27/03	0BB-96920	Pentagon Performance 15

c. The Druffner Group used 22 accounts for Chronos:

Date opened	*Account #*	*Account name*
1/6/00	041-96604	Confidential Acct. #5400
1/11/00	041-96605	Confidential Acct. #5475
2/20/00	041-96606	Abby Mills
5/11/00	041-96607	Buckhannon, Inc.
5/11/00	041-96608	Havers, Inc.
5/11/00	0BB-96799	JST Pan, Inc.
5/11/00	0BB-96800	Patten, Inc.
5/11/00	0BB-96801	EVBO, Inc.
5/11/00	0BB-96802	OXBO, Inc.
5/11/00	0BB-96803	Rodgars Als, Inc.
6/2/00	0BB-96657	CIBC Cayman XP-1
6/7/00	0BB-96658	CIBC Cayman XP-2
6/7/00	0BB-96659	CIBC Cayman XP-3
12/6/00	0BB-96713	CIBC Cayman XP-4
12/6/00	0BB-96714	CIBC Cayman XP-5
12/7/00	0BB-96716	CIBC Cayman XP-6
4/3/02	ERS-95333	OXBO Inc. II
4/3/02	ERS-95334	JST Pan Inc. II
4/8/02	ERS-95335	Havers Inc. II
8/7/02	041-96625	EVBO Inc. II
8/7/02	041-96626	Rodgars Als Inc. II
2/5/03	ERS-95354	CIBC Cayman XP-7

d. The Druffner Group used twenty accounts for Ritchie:

Date opened	*Account #*	*Account name*
12/8/00	0BB-96717	Blue Spruce Inc.
12/8/00	0BB-96718	Clear Brook Inc.

Date opened	*Account #*	*Account name*
12/8/00	0BB-96719	Whitespruce Inc.
12/8/00	0BB-96720	Pine Hills Inc.
12/8/00	0BB-96721	Rock Hill Inc.
6/4/01	0BB-96782	Pine Hills Inc. II
6/4/01	0BB-96783	Rock Hill Inc. II
9/7/01	041-96612	Canadian Imperial R-1
9/10/01	0BB-96807	Canadian Imperial R-2
9/10/01	ERS-95315	Canadian Imperial R-3
9/10/01	ERS-95317	Canadian Imperial R-4
9/10/01	ERS-95316	Canadian Imperial R-5
9/28/01	0BB-96811	Clear Brook Inc. II
10/2/01	0BB-96812	Blue Spruce Inc. II
10/2/01	0BB-96813	Whitespruce Inc. II
12/26/01	0BB-96829	Whitespruce Inc. III
1/2/02	0BB-96834	Blue Spruce Inc. III
1/2/02	0BB-96835	Clear Brook Inc. III
1/3/02	0BB-96837	Pine Hills Inc. III
1/3/02	0BB-96838	Rock Hill Inc. III

e. The Druffner Group used twenty accounts for Jemmco:

Date opened	*Account #*	*Account name*
4/4/02	041-83263	Tuscany Capital
4/4/02	041-83264	Meladan Capital
4/4/02	041-83265	Jaguar Capital
4/4/02	041-83266	Sequential Capital
4/4/02	0BB-22931	Legion Capital
4/4/02	0BB-22932	Sherlock Capital
4/4/02	ERS-05756	Liverpool Capital

Date opened	*Account #*	*Account name*
4/4/02	ERS-05757	Apricot Capital
4/4/02	ERS-05758	Raleigh Capital
4/24/02	041-96618	Triad International
4/26/02	ERS-95338	Campbell International
4/26/02	ERS-95339	Cornell International
12/5/02	0BB-23580	Enterprise Capital
12/5/02	0BB-23581	Scorpio Capital
12/5/02	ERS-05761	Virgo Capital
12/5/02	ERS-05762	Pyramid Capital
12/11/02	041-83403	Nautical Capital
5/15/03	0BB-23966	Sapphire Partners
6/16/03	0BB-24021	Walnut Capital
6/16/03	ERS-05770	Taurus Capital

f. The Peffer Group used seventeen accounts for Global:

Date opened	*Account #*	*Account name*
5/19/98	0BB-96359	Global Analytical Capital
7/28/00	0BB-96680	GACF, NV
9/21/00	0BB-96696	Capital Investors
11/3/00	0BB-96705	Analytical Investors
2/1/01	0BB-96750	Investment Consultants
2/14/01	0BB-96752	International Advisors
3/7/01	0BB-96760	Strategic Investors
3/7/01	0BB-96761	Equity Investors
5/14/01	0BB-96771	GA Capital
5/14/01	0BB-96772	Global Equity
7/5/01	0BB-96792	Global Strategies
8/16/01	0BB-96804	Foreign Investments

Date opened	*Account #*	*Account name*
12/24/01	0BB-96825	Foreign Equity Capital
12/24/01	0BB-96826	Int'l Capital Consultants
6/10/02	041-96620	Gacf
1/7/03	0BB-96900	Global Capital
1/7/03	0BB-96901	Global Analytical

g. The Peffer Group used three accounts for Summa:

Date opened	*July 12, 2004Account #*	*Account name*
2/3/03	0BB-96907	Canco Ltd.
2/3/03	0BB-96908	Hilt Ltd.
2/3/03	0BB-96909	Parr Ltd.

30. The defendant brokers did not open their clients' various accounts to pursue different investment strategies. On the contrary, each of the brokers frequently used two or more of a client's accounts to purchase shares of the same mutual fund at the same time. Similarly, each of the brokers frequently exchanged fund shares held in several of a client's accounts at the same time, and on nearly every occasion, all of the client's exchanges reflected the same investment decision (*i.e.*, a transfer from a money market fund to an equity fund in a particular sector, or vice versa).

The Brokers' Purchases of Mutual Fund Shares
<u>using Multiple Accounts and FA Numbers</u>

31. Maintaining more than a dozen separate accounts for each major client (and nearly eighty accounts for Headstart) and using multiple FA numbers for the same clients, solely for the

purpose of carrying out the scheme, imposed a significant administrative burden and generated mountains of paperwork for the defendant brokers and their staff. Because the accounts were not opened to pursue different investment strategies and the FA numbers were not used to calculate separate commissions, the reason each of the brokers used so many accounts and FA numbers was to make the clients' market timing harder to detect. The clients were buying and selling millions of dollars of mutual fund shares on virtually a daily basis. By splitting up a client's transactions into numerous smaller components, submitted under fictitious names using different FA numbers, the brokers significantly increased the chances that the transactions would evade detection by the fund companies.

32. Between January 1, 2001 and September 15, 2003, the defendant brokers used multiple accounts and multiple FA numbers to purchase mutual fund shares worth more than $1.3 billion for their seven principal clients from at least 52 fund companies:

Fund Complex	*Amount Purchased*
AIM	$166,020,065
Franklin Templeton	$87,333,379
ACM/Alliance	$85,379,095
Goldman Sachs	$66,109,858
Scudder	$65,709,693
Van Kampen	$59,983,974
Federated	$59,938,279
ING/Pilgrim	$54,281,843
Dreyfus	$49,399,365
Putnam	$42,563,043
Seligman	$40,338,948
State Street	$39,321,934

Fund Complex	*Amount Purchased*
American Century	$34,849,349
Fidelity	$34,122,200
Deutsche Asset Mgt.	$32,176,590
Oppenheimer	$31,953,453
Liberty	$31,676,686
Pimco	$29,662,546
American Funds	$29,344,941
Blackrock	$28,314,990
Janus	$27,785,225
Lazard	$23,809,548
Pioneer	$19,662,558
Mercury/Merrill Lynch	$18,109,853
Evergreen	$17,918,932
Munder	$17,163,953
Credit Suisse	$14,676,336
Strong	$11,448,489
IDEX	$11,269,869
Hartford	$10,471,995
Wells Fargo	$10,119,989
Lord Abbett	$9,285,235
UBS	$9,166,963
Eaton Vance	$7,659,250
Ivy	$7,645,490
SunAmerica	$5,944,974
WM Group	$5,899,000
Phoenix	$5,571,000
Investec	$5,182,000
General Electric	$4,976,395
Delaware	$3,878,000

Fund Complex	*Amount Purchased*
J.P. Morgan	$3,585,000
Neuberger Berman	$3,581,000
Thornburg	$3,120,422
FPA Distributors	$2,959,995
John Hancock	$2,415,000
One Group	$1,754,000
Davis	$1,465,000
Nuveen	$1,196,000
Gabelli	$652,995
Ark	$425,000
First Investors	$395,000
	$1,337,674,697

Attached hereto as **Exhibit A** is a table identifying the date, dollar amount, fund, customer account, and FA number for each purchase.

33. The Druffner Group used multiple accounts and FA numbers to purchase more than $1 billion for its five principal clients:

Client	*Total Purchases*
Headstart	$578,536,035
Pentagon	$154,425,048
Chronos	$128,940,556
Ritchie	$81,064,300
Jemmco	$76,783,387
	$1,019,749,326

a. The Druffner Group made these purchases from at least 51 fund companies:

Fund Complex	*Amount Purchased*
AIM	$145,405,895
Franklin Templeton	$60,772,926
Goldman Sachs	$58,256,859
ACM/Alliance	$57,652,000
Van Kampen	$57,363,974
Federated	$56,385,279
Dreyfus	$46,874,995
Scudder	$39,799,549
State Street	$38,401,934
Seligman	$35,702,548
Oppenheimer	$30,688,952
ING/Pilgrim	$27,280,953
Pimco	$26,908,546
American Funds	$26,570,432
Blackrock	$25,332,990
Putnam	$19,104,974
Janus	$18,374,000
Mercury/Merrill Lynch	$17,544,853
Liberty	$16,887,214
Evergreen	$16,192,932
Munder	$15,967,953
Pioneer	$15,487,058
Fidelity	$15,348,000
American Century	$13,445,000
IDEX	$10,534,869
Lazard	$9,892,312
Hartford	$9,542,995
Wells Fargo	$9,513,989
UBS	$9,166,963

Fund Complex	*Amount Purchased*
Lord Abbett	$8,880,235
Credit Suisse	$6,926,636
Strong	$6,299,990
Eaton Vance	$6,262,250
WM Group	$5,899,000
Deutsche Asset Mgt.	$5,594,000
SunAmerica	$5,339,974
Investec	$5,182,000
Phoenix	$5,171,000
General Electric	$4,976,395
Ivy	$4,299,490
Delaware	$3,878,000
J.P. Morgan	$3,585,000
Neuberger Berman	$3,581,000
Thornburg	$3,120,422
FPA Distributors	$2,959,995
John Hancock	$2,415,000
Davis	$1,465,000
One Group	$1,375,000
Nuveen	$920,000
Ark	$425,000
Gabelli	$397,995
First Investors	$395,000
	$1,019,749,326

b. The number of accounts and FA numbers which the Druffner Group used to make purchases for Headstart was as follows:

Fund Complex	*Amount Purchased*	*Accounts*	*FA Numbers*
AIM	$61,853,974	72	11
Goldman Sachs	$36,789,990	53	11
ACM/Alliance	$36,150,000	65	12
Van Kampen	$32,545,990	61	12
Dreyfus	$31,831,000	56	10
Franklin Templeton	$31,107,000	67	13
Scudder	$25,459,586	57	12
State Street	$24,894,492	75	13
Seligman	$24,404,078	62	12
Federated	$22,956,089	63	13
Oppenheimer	$21,248,984	68	13
Blackrock	$15,674,995	53	10
Pimco	$15,644,373	60	13
ING/Pilgrim	$15,067,984	54	12
Putnam	$14,769,974	36	11
Pioneer	$13,705,758	37	11
Fidelity	$12,973,000	29	11
Janus	$12,153,000	32	11
American Funds	$11,499,495	54	11
Liberty	$10,861,235	45	10
Munder	$10,372,953	65	13
Evergreen	$8,171,995	63	13
Lord Abbett	$7,454,979	40	12
Hartford	$7,009,995	33	9
Lazard	$6,471,412	27	7
American Century	$6,335,000	22	7
UBS	$6,253,963	30	8
Mercury/Merrill Lynch	$5,835,000	17	5
Wells Fargo	$4,895,989	35	13

Fund Complex	*Amount Purchased*	*Accounts*	*FA Numbers*
WM Group	$4,580,000	33	10
Credit Suisse	$4,430,636	18	5
Eaton Vance	$4,347,250	19	8
Phoenix	$3,228,000	18	8
Thornburg	$3,120,422	24	9
Investec	$3,007,000	9	5
J.P. Morgan	$2,885,000	16	6
Strong	$2,859,990	15	6
SunAmerica	$2,730,995	18	8
Delaware	$2,628,000	13	6
Ivy	$2,496,490	17	9
Neuberger Berman	$2,256,000	10	4
Deutsche Asset Mgt.	$1,955,000	8	5
John Hancock	$1,920,000	12	5
General Electric	$775,974	5	2
Gabelli	$397,995	3	3
IDEX	$335,000	3	3
Davis	$190,000	2	1
	$578,536,035		

c. The number of accounts and FA numbers which the Druffner Group used to make purchases for Pentagon was as follows:

Fund Complex	*Amount Purchased*	*Accounts*	*FA Numbers*
AIM	$27,901,000	28	5
ACM/Alliance	$13,417,000	30	6
Dreyfus	$11,349,000	21	4
Franklin Templeton	$8,648,000	28	6
Federated	$8,389,000	28	6

Fund Complex	*Amount Purchased*	*Accounts*	*FA Numbers*
Seligman	$7,233,475	26	6
Pimco	$7,158,173	24	4
Scudder	$6,930,000	20	6
Van Kampen	$6,455,000	14	2
ING/Pilgrim	$5,380,000	25	6
American Funds	$4,680,000	27	4
Janus	$3,466,000	15	2
State Street	$3,450,000	17	4
American Century	$3,445,000	13	5
Evergreen	$3,437,000	26	5
Wells Fargo	$2,833,000	23	6
Lazard	$2,830,900	13	3
Liberty	$2,620,000	13	4
Munder	$2,480,000	22	5
Goldman Sachs	$2,275,000	24	5
Hartford	$2,063,000	12	5
Credit Suisse	$1,996,000	9	2
Putnam	$1,985,000	8	2
Fidelity	$1,875,000	3	2
SunAmerica	$1,459,000	9	2
Ivy	$1,325,000	12	3
Blackrock	$1,255,000	6	2
Oppenheimer	$1,175,000	6	2
Phoenix	$1,135,000	8	4
Deutsche Asset Mgt.	$839,000	4	2
Strong	$750,000	3	2
Lord Abbett	$725,000	9	4
J.P. Morgan	$700,000	3	2
Eaton Vance	$700,000	3	2

Fund Complex	Amount Purchased	Accounts	FA Numbers
General Electric	$605,500	3	1
Pioneer	$485,000	2	2
Ark	$425,000	3	1
Delaware	$350,000	2	2
Davis	$200,000	2	1
	$154,425,048		

d. The number of accounts and FA numbers which the Druffner Group used to make purchases for Chronos was as follows:

Fund Complex	Amount Purchased	Accounts	FA Numbers
AIM	$14,755,000	17	8
Goldman Sachs	$14,517,000	20	9
Federated	$10,865,000	19	9
Van Kampen	$9,210,000	19	9
State Street	$6,680,000	20	10
Franklin Templeton	$6,138,000	13	8
Blackrock	$5,278,000	17	7
American Funds	$4,986,000	20	7
Pimco	$4,106,000	19	7
Mercury/Merrill Lynch	$3,485,000	13	7
Munder	$3,115,000	18	9
Oppenheimer	$3,005,000	15	7
UBS	$2,913,000	15	7
Scudder	$2,665,000	5	2
Evergreen	$2,659,000	18	8
Seligman	$2,565,000	9	4
Liberty	$2,406,000	15	6
FPA Distributors	$2,160,000	15	8

Fund Complex	*Amount Purchased*	*Accounts*	*FA Numbers*
ACM/Alliance	$2,410,000	7	4
American Century	$2,140,000	6	3
ING/Pilgrim	$2,038,000	8	4
Janus	$2,030,000	8	4
Wells Fargo	$1,785,000	12	7
Investec	$1,725,000	5	3
Dreyfus	$1,545,000	3	3
One Group	$1,375,000	4	4
Neuberger Berman	$1,325,000	5	3
WM Group	$1,319,000	10	4
Eaton Vance	$1,215,000	5	3
Davis	$1,075,000	4	2
Nuveen	$920,000	3	2
Phoenix	$808,000	8	4
Strong	$715,000	3	1
Lord Abbett	$700,256	8	4
General Electric	$660,000	6	3
SunAmerica	$650,000	5	5
Lazard	$590,000	3	2
IDEX	$543,000	4	2
Pioneer	$496,300	13	5
John Hancock	$495,000	3	3
Ivy	$478,000	5	3
First Investors	$395,000	4	2
	$128,940,556		

e. The number of accounts and FA numbers which the Druffner Group used to make purchases for Ritchie was as follows:

Fund Complex	*Amount Purchased*	*Accounts*	*FA Numbers*
AIM	$31,746,000	18	6
Franklin Templeton	$7,515,000	10	6
Van Kampen	$6,653,000	15	7
Federated	$6,645,300	17	8
Oppenheimer	$3,660,000	10	5
ING/Pilgrim	$3,645,000	13	4
Scudder	$2,795,000	6	6
American Funds	$2,660,000	14	8
Deutsche Asset Mgt.	$2,350,000	7	3
Putnam	$2,350,000	7	4
Goldman Sachs	$1,850,000	8	5
Blackrock	$1,700,000	7	3
ACM/Alliance	$1,400,000	5	3
Strong	$1,250,000	6	2
Mercury/Merrill Lynch	$1,150,000	4	3
American Century	$1,025,000	3	3
Delaware	$900,000	5	4
Pioneer	$800,000	3	2
Fidelity	$500,000	2	1
Hartford	$470,000	2	2
	$81,064,300		

f. The number of accounts and FA numbers which the Druffner Group used to make purchases for Jemmco was as follows:

Fund Complex	*Amount Purchased*	*Accounts*	*FA Numbers*
IDEX	$9,656,869	16	5
AIM	$9,149,921	14	4
Federated	$7,529,890	16	8

Fund Complex	*Amount Purchased*	*Accounts*	*FA Numbers*
Franklin Templeton	$7,364,926	18	8
Mercury/Merrill Lynch	$7,074,853	18	6
ACM/Alliance	$4,275,000	7	5
State Street	$3,377,442	15	7
General Electric	$2,934,921	15	5
Goldman Sachs	$2,824,869	16	7
American Funds	$2,744,937	16	6
Van Kampen	$2,499,984	6	4
Dreyfus	$2,149,995	5	4
Scudder	$1,949,963	11	4
Evergreen	$1,924,937	16	8
Oppenheimer	$1,599,968	8	6
Seligman	$1,499,995	6	4
Blackrock	$1,424,995	5	3
ING/Pilgrim	$1,149,969	8	3
Liberty	$999,979	5	3
FPA Distributors	$799,995	4	3
Janus	$725,000	3	2
Strong	$725,000	3	3
American Century	$500,000	2	2
Credit Suisse	$500,000	2	2
SunAmerica	$499,979	4	3
Deutsche Asset Mgt.	$450,000	2	2
Investec	$450,000	2	2
	$76,783,387		

34. The Peffer Group used multiple accounts and FA numbers to purchase more than $300 million for its two principal clients:

Client	*Total Purchases*
Global	$314,622,371
Summa	$3,303,000
	$317,925,371

a. The Peffer Group made these purchases from at least 39 fund companies:

Fund Complex	*Amount Purchased*
ACM/Alliance	$27,727,095
ING/Pilgrim	$27,000,890
Deutsche Asset Mgt.	$26,582,590
Franklin Templeton	$26,560,452
Scudder	$25,910,143
Putnam	$23,458,069
American Century	$21,404,349
AIM	$20,614,170
Fidelity	$18,774,200
Liberty	$14,789,472
Lazard	$13,917,237
Janus	$9,411,225
Goldman Sachs	$7,853,000
Credit Suisse	$7,749,700
Strong	$5,148,500
Seligman	$4,636,400
Pioneer	$4,175,500
Federated	$3,553,000
Ivy	$3,346,000
Blackrock	$2,982,000
American Funds	$2,774,509
Pimco	$2,754,000

Fund Complex	*Amount Purchased*
Van Kampen	$2,620,000
Dreyfus	$2,524,370
Evergreen	$1,726,000
Eaton Vance	$1,397,000
Oppenheimer	$1,264,500
Munder	$1,196,000
Hartford	$929,000
State Street	$920,000
IDEX	$735,000
Wells Fargo	$606,000
SunAmerica	$605,000
Mercury/Merrill Lynch	$565,000
Lord Abbett	$405,000
Phoenix	$400,000
One Group	$379,000
Nuveen	$276,000
Gabelli	$255,000
	$317,925,371

b. The number of accounts and FA numbers which the Peffer Group used to make purchases for Global was as follows:

Fund Complex	*Amount Purchased*	*Accounts*	*FA Numbers*
ACM/Alliance	$26,967,095	17	6
Deutsche Asset Mgt.	$26,582,590	7	4
Scudder	$25,910,143	12	6
Franklin Templeton	$26,560,452	15	5
ING/Pilgrim	$27,000,890	10	5
Putnam	$23,458,069	11	5

Fund Complex	*Amount Purchased*	*Accounts*	*FA Numbers*
American Century	$21,404,349	6	4
AIM	$20,128,170	13	5
Fidelity	$18,774,200	12	6
Liberty	$14,531,472	12	5
Lazard	$13,917,237	5	3
Janus	$9,411,225	5	3
Credit Suisse	$7,749,700	6	4
Goldman Sachs	$7,595,000	9	4
Strong	$5,148,500	4	3
Seligman	$4,414,400	13	4
Pioneer	$4,175,500	8	4
Federated	$3,553,000	9	4
Ivy	$2,933,000	12	4
American Funds	$2,774,509	13	4
Pimco	$2,754,000	9	4
Blackrock	$2,729,000	13	4
Van Kampen	$2,620,000	8	5
Dreyfus	$2,524,370	4	2
Evergreen	$1,726,000	12	4
Oppenheimer	$1,264,500	5	3
Eaton Vance	$1,014,000	10	3
Hartford	$929,000	8	4
Munder	$926,000	8	4
State Street	$920,000	9	4
IDEX	$735,000	5	3
Wells Fargo	$606,000	2	1
SunAmerica	$605,000	4	4
Mercury/Merrill Lynch	$565,000	6	3
Lord Abbett	$405,000	4	2

Fund Complex	*Amount Purchased*	*Accounts*	*FA Numbers*
Phoenix	$400,000	3	2
One Group	$379,000	4	3
Nuveen	$276,000	3	3
Gabelli	$255,000	3	2
	$314,622,371		

c. The number of accounts and FA numbers which the Peffer Group used to make purchases for Summa was as follows:

Fund Complex	*Amount Purchased*	*Accounts*	*FA Numbers*
ACM/Alliance	$760,000	2	2
AIM	$486,000	3	2
Ivy	$413,000	2	1
Eaton Vance	$383,000	3	2
Munder	$270,000	3	2
Liberty	$258,000	2	1
Goldman Sachs	$258,000	2	2
Blackrock	$253,000	3	2
Seligman	$222,000	2	1
	$3,303,000		

The Brokers' Use of Multiple Accounts and FA Numbers to Disguise
Their Clients' Purchases and Exchanges of Mutual Fund Shares

35. The defendant brokers used several techniques to conceal their identities and their clients' identities and to disguise the large volume of their clients' purchases and exchanges. First, each of the brokers used multiple accounts and FA numbers to buy large amounts of a fund company's shares for the same client within a short period of time. Hundreds of examples of this

conduct are set forth with particularity in the company-by-company analysis attached hereto as **Exhibit B** hereto, including:

a. During one week in February 2002, the Druffner Group purchased $4,875,000 of AIM funds for Headstart using seven accounts and five FA numbers.

b. During the same week, the Druffner Group purchased approximately $1.75 million of Dreyfus funds for Headstart using eight accounts and four FA numbers.

c. During two weeks in May 2002, the Druffner Group purchased $2,175,000 of Alliance funds for Pentagon using eight accounts and four FA numbers.

d. During two weeks in May 2002, the Druffner Group purchased $3,515,000 of Franklin Templeton funds for Headstart using eleven accounts and six FA numbers.

e. During one month in the summer of 2002, the Druffner Group purchased $4.630,000 of Federated funds for Chronos using fourteen accounts and six FA numbers.

f. During two weeks in September 2002, the Peffer Group purchased $470,000 of ING funds for Global using four accounts and three FA numbers.

g. During one week in February 2003, the Druffner Group purchased $1,374,940 of Goldman Sachs funds using fifteen accounts and five FA numbers.

h. During two weeks in June 2003, the Peffer Group purchased $882,000 of Seligman funds using seven accounts and three FA numbers.

36. Second, each of the brokers used multiple accounts and FA numbers to buy large amounts of a single fund for the same client on the same day. Hundreds of examples of this conduct are set forth in **Exhibit B**, including:

a. On May 24, 2001, the Peffer Group purchased $1,560,000 of the Pilgrim International Value Fund for Global using three accounts and two FA numbers.

b. On November 12, 2001, the Peffer Group purchased $297,000 of the American Funds Euro-Pacific Fund for Global using three accounts and three FA numbers.

c. On August 28, 2003, the Druffner Group purchased $3,055,000 of the Fidelity Advisers High Yield Fund for Headstart using nine accounts and five FA numbers.

d. The same day, the Druffner Group purchased $2,775,000 of the Goldman Sachs Global High Yield Fund for Headstart using four accounts and four FA numbers.

37. Third, each of the brokers used multiple accounts to exchange large amounts of fund shares within the same fund complex on the same day. Hundreds of examples of this conduct are set forth in **Exhibit B**, including:

a. On November 29, 2001, the Peffer Group exchanged $1,048,113 in ten Global accounts from the American Funds cash management account to the American Funds Euro-Pacific Fund.

b. On April 17, 2002, the Druffner Group exchanged $17,555,792 in 48 Headstart accounts from three Alliance equity funds to the Alliance cash reserves fund.

c. On December 16, 2002, the Druffner Group exchanged $7,428,706 in seventeen Chronos accounts from the Federated Kaufman Fund to the Liberty U.S. Government Fund.

d. On February 14, 2002, the Druffner Group exchanged $6,106,846 in seventeen Pentagon accounts from the Dreyfus Worldwide Growth Fund to the Dreyfus money market fund.

38. Fourth, the Druffner Group often changed the FA number assigned to an account.

a. After Ajro received his primary FA number (50) in May 2001, the Druffner Group used it to make purchases for five accounts which had previously used other numbers.

b. After Ficken and Ajro received their first joint FA number (AF) in October 2001, the Druffner Group used it to make purchases for 29 accounts which had previously used other numbers.

c. After Druffner and Ajro received their first joint FA number (AD) in February 2002, the Druffner Group used it to make purchases for 22 accounts which had previously used other numbers.

d. After Druffner and Ficken obtained their second joint FA number (FD) in August 2002, the Druffner Group used it to make purchases for seven accounts which had previously used other numbers, including one which had used their other joint number (DF).

e. After Druffner and Ajro obtained their second joint FA number (DA) in September 2002, the Druffner Group used it to make purchases for 25 accounts which had previously used other numbers, including seven which had previously used their first joint number (AD).

f. After Ficken and Ajro obtained their second joint FA number (23) in February 2003, the Druffner Group used it to make purchases for fifteen accounts which had previously used other numbers.

g. This switching of FA number was simply part of the shell game to confuse the mutual fund companies. As noted above, virtually all commissions from the Druffner Group's purchases were split in the same manner regardless of FA number.

39. The defendant brokers each intended that their use of multiple accounts and FA numbers would make it more difficult for the mutual fund companies to identify who was placing the trades and thus to enforce their restrictions on excessive trading. Indeed, the brokers and their clients exchanged emails which reveal a common intent to avoid detection by the fund companies and to evade any restrictions on their trading, including, without limitation, the following:

a. On April 25, 2001, Druffner sent an email to Chronos stating: "I put the Scudder in. We will see if they stick."

b. On May 23, 1001, Fidelity blocked two Druffner Group FA numbers from further purchases of its funds. On June 27, 2001, Headstart sent an email to Ficken and Druffner asking, "[A]re you ready to try Fidelity again yet or not?"

c. On October 30, 2001, Ficken sent an email to Chronos stating, "[W]hen using Seligman, it is crucial to implement some sort of fund rotation. They look carefully at accounts hitting the same funds over and over again."

d. On December 13, 2001, Ficken sent an email to Chronos stating:

> With AIM it's important for the initial purchase as well as all future exchanges to be into one fund per move. I believe that the number of exchanges is monitored, so partial or split exchanges will erode performance and longevity. Meaning, buy into one fund with a million, trade into a fund with ALL, go to cash with ALL, trade out again into a fund of your choice with ALL

Chronos replied, "I understand what you're saying about the aim [AIM], marty [Druffner] told me they cared more about the number of trades and not the size of trades last time we were kicked out of it."

e. On March 12, 2002, Chronos sent an email to Druffner discussing how to allocate $10 million among different fund companies. The email stated, "For Pilgrim, does the fund have staying power? We've gotten kicked out pretty quickly in the past, is there a technique we could use to get a longer life out of it?"

f. On March 13, 2002, Druffner sent an email to Chronos indicating that he had purchased C shares instead of A shares for a certain Pimco fund. (Some fund companies offer several levels of shares, identified by different letters, in the same fund. The different levels usually have different fee structures.) Druffner explained why he had purchased C shares: "We have found that ... Pimco keeps a close eye on the A shares and not as much on the C."

g. On March 25, 2003, Bilotti sent an email to Summa stating that Blackrock had identified its three accounts for market timing and was imposing a 2% redemption fee if the shares were exchanged. Summa responded by telling Bilotti to liquidate the current Blackrock holdings and then "wait 4 or 5 days and we can try the C shares."

h. On April 2, 2003, Ficken sent an email to Jemmco listing certain funds that he proposed to buy for six of its accounts:

> [Y]ou need to be somewhat flexible with regards to how we gain access to the various Fund Families. Some are far more vigilant than others – buying the shortest duration Bond fund in a large quantity is a dead give-away as far as market timing. I always try to place the money in respective Fund Families with the intent on avoiding losses in Bond positions. However, sometimes it happens.

i. On April 8, 2003, Druffner sent an email to a potential new client explaining how fund companies monitor market timing:

> Every fund company is different. Some allow you to do your last exchange to money market. Others put an immediate stop on the account. No fund companies give warnings so it is very critical before each exchange you are certain of the market so you do not burn exchanges and your account be deemed a market timer.

j. On May 7, 2003, Ficken sent an email to Ritchie explaining why he was selling the balance of American Funds shares in one of its accounts: "American finally clipped my last rep id. Therefore, I'm redeeming the American MM [money market] in Pine Hills [one of Ritchie's accounts]."

40. Just as each of the defendant brokers intended, the use of multiple accounts and FA numbers made it more difficult for the fund companies to detect and stop their market timing. One reason is that the fund companies could not readily determine whether transactions placed in different accounts with different names and different branch prefixes were actually for the same client, or whether transactions placed with different FA numbers were actually for the same team of brokers. Further, many fund companies used a threshold dollar amount to monitor excessive trading, and the use of multiple accounts enabled the brokers to break up a client's transactions into smaller pieces below the known or estimated threshold.

41. A second reason why the brokers' scheme was successful is that the account and broker identity information which the fund companies received did not always identify the brokers by name. This problem is reflected in the fund companies' communications to PSI, including, without limitation, the following:

a. On April 12, 2002, AIM sent an email to PSI listing various brokers "that are doing heavy timing in our funds." AIM identified three of the brokers by FA number (including one Druffner Group number) and explained, "We do not have names for those brokers, so it is possible they are the same people as some of the other broker identifications on the list."

b. On October 23, 2002, Scudder sent an email to PSI blocking two Boston accounts from further purchases or exchanges in its funds. Scudder explained that one of the accounts "does not reference a specific rep by name" and asked PSI to "forward this information to the appropriate parties."

c. On February 6, 2003, American Funds sent an email to PSI stating, "Below is the list of reps for your meeting tomorrow that we would ask be immediately restricted from any market timing activity. We were unable to identify by name every rep involved in activity so we would appreciate your help in obtaining the names of the reps from their ID#."

d. On February 11 and February 20, 2003, Evergreen sent emails to PSI blocking certain accounts and indicating that the brokers for those accounts (including one Peffer Group FA number) were "unknown" and, as a result, Evergreen could not send a personal letter telling them to stop their market timing.

42. A third reason why it was hard for the fund companies to detect and stop the defendant brokers' market timing was that some of the companies were aware that some brokers worked together on teams but could not identify the members of a team merely from the FA numbers. This problem is also reflected in the fund companies' communications to PSI, including, without limitation, the following:

a. On February 25, 2003, Fidelity sent an email to PSI attaching a list of brokers to be blocked from all Fidelity Advisor funds, including the defendant brokers and some, but not all, of their FA numbers. Fidelity stated, "Please block the IP's from trading with Fidelity Advisor Funds again due to large purchases and redemptions out in and out of the Pru-Choice account. I have added the names and Rep ID's we have on file, but I would like all rep combinations blocked."

b. On March 3, 2003, Goldman Sachs sent an email to PSI asking it to block certain brokers from further trading in its funds. The email identified Druffner, Ficken and Ajro by name and primary FA number. The email then stated:

> If these brokers have additional rep numbers that are not stated above, please include those as well. I know that these brokers are on teams. Unfortunately, my list of brokers does not detail the names of team members (only the last two digits of their individual numbers). Is there any way you can find out what teams they are a part of? If so, I'd like the teams banned as well.

The Brokers' Use of Multiple Accounts and FA Numbers
<u>to Evade Fund Company Restrictions on Further Trading</u>

43. Despite the defendant brokers' efforts to conceal the identities of themselves and their clients, some of the fund companies did manage to determine that certain of the accounts and brokers were engaged in market timing. When that happened, the fund company typically sent a letter or email to PSI indicating that an account or broker (identified by name and/or FA number) was blocked from further trading in its funds. Some of the fund company communications were sent directly to the broker in question, but most were sent to PSI's Mutual Fund Operations unit in New York, which forwarded copies to the branch manager and/or the broker. Between January 2001 and September 2003, the 52 fund companies discussed in

Exhibit B sent more than one thousand letters and emails to PSI concerning excessive trading by the defendant brokers and their clients.

44. On many occasions, the fund companies asked PSI for assistance in preventing the account or broker from continuing to trade in its funds. In April 2001, responding to the large number of such requests concerning the defendant brokers and other brokers in other branches, PSI's Mutual Fund Operations unit implemented a computerized system designed to prevent the entry of a transaction into the BOSS 3000 system for an account or FA number that had been blocked by a particular fund company. **Exhibit C** hereto identifies the date of each block or warning letter from a fund company concerning the defendant brokers, the date of each internal block by PSI concerning the defendant brokers, and the specific accounts and FA numbers affected.

45. Despite the efforts of the fund companies and PSI to curtail their market timing, the defendant brokers routinely used their inventory of as-yet unblocked accounts and FA numbers to fool the very same fund companies into continuing to process their transactions. Dozens of examples of this conduct are set forth in **Exhibit B**, including:

a. On July 16, 2001, PSI blocked three Global accounts from nine Scudder international funds, including the International Fund. The next day, the Peffer Group purchased $486,000 of the International Fund for Global using another account.

b. Between November 5 and November 26, 2001, PSI blocked three Headstart accounts from Munder funds. Between December 5, 2001 and January 11, 2002, the Druffner Group purchased $1,035,000 of Munder funds for Headstart using seven other accounts. Three of the accounts were opened on or after December 5, 2001.

c. On March 1, 2002, MFS sent a letter to PSI blocking four Headstart accounts from further purchases or exchanges in its Global Equity and Global Growth Funds. On March 27, 2002, PSI blocked the four accounts from further trading in those funds. On April 23, 2002, the Druffner Group bought $100,000 of the Bond Fund for Headstart using another account and another FA number. On April 30, 2002, Headstart exchanged $100,000 in that account to the Global Growth Fund. On May 16, 2002, the Druffner Group bought $165,000 of the Bond Fund for Headstart using a second account and a second FA number. On June 5, 2002, Headstart exchanged $166,936 in the second account to the Global Equity Fund.

d. On June 12, 2002, PSI blocked one Chronos account from the Van Kampen Government Securities Fund. On June 21, 2002, the Druffner Group purchased $90,000 of the Government Securities Fund for Chronos using another account and another FA number.

e. On July 10, 2002, PSI blocked three Headstart accounts from Franklin Templeton funds. Between July 17 and July 23, 2002, the Druffner Group purchased $1,380,000 of Franklin Templeton funds for Headstart using six other accounts and four other FA numbers.

f. On September 4, 2002, PSI blocked five Druffner Group FA numbers (14, 15, AF, MD, M5) from Franklin Templeton funds. The next day, the Druffner Group purchased $199,995 of the Franklin Templeton U.S. Government Securities Fund for Jemmco using another FA number (78).

g. On September 18 and October 15, 2002, PSI blocked twelve Headstart accounts from Federated funds. On October 16, 2002, the Druffner Group purchased $1,000,000 of the Federated High Income Fund for Headstart using two other accounts.

46. On January 8, 2003, PSI announced a policy concerning market timing by its brokers in non-proprietary mutual funds. The policy required brokers to adhere to the restrictions on the frequency of trading set forth in each mutual fund's disclosure documents and provided that "such restrictions will be applied to **all** associated FA numbers, including joint and also numbers." (Original emphasis.) The policy further stated that "the use of manipulative techniques designed to avoid detection of certain trading activity," such as "executing transactions through an 'also' number or joint production number in order to conceal the identity of the Financial Adviser, or opening new accounts to conceal the identity of the client" would subject a broker to disciplinary sanction.

47. Despite the January 2003 policy, the defendant brokers continued to use multiple accounts and FA numbers to evade the fund companies' restrictions – precisely the kind of "manipulative techniques" which the policy prohibited. Dozens of examples of this conduct are set forth in **Exhibit B**, including:

a. On January 31, 2003, PSI blocked three Druffner Group FA numbers (AD, MD, M5) from Janus funds. On February 20, 2003, the Druffner Group bought $250,000 of the Janus Short-Term Bond Fund for Chronos using another FA number (B6).

b. On January 31, 2003, PSI blocked four Druffner Group FA numbers (AD, AF, FD, M5) and four Headstart accounts from Evergreen funds. On April 8, 2003, the Druffner Group bought $125,000 of the Evergreen High-Yield Bond Fund for Headstart using another account and another FA number (23).

c. On February 5, 2003, PSI blocked two Druffner Group FA numbers (DA, FD) from Van Kampen funds. On March 7, 2003, the Druffner Group bought $300,000 of the

Van Kampen Government Securities Fund for Chronos using another FA number (B6). On March 13, 2003, the Druffner Group bought $528,000 of the Van Kampen International Magnum Fund for Ritchie using two other FA numbers (15, 23).

d. On February 18, 2003, PSI blocked three Headstart accounts from the Scudder High Income Fund. On February 26 and February 27, 2003, the Druffner Group bought $775,000 of the High Income Fund for Headstart using three other accounts and two other FA numbers.

e. On February 18, 2003, PSI blocked eight Druffner Group FA numbers (14, 50, AD, B6, DA, FD, MD, M5) from the American Funds. On February 28, 2003, the Druffner Group bought $350,000 of the American U.S. Government Securities Fund for Pentagon using another FA number (23). On March 6, 2003, the Druffner Group bought $170,000 of the American Funds' Bond Fund of America for Chronos using the same FA number.

f. On March 3, 2003, Goldman Sachs asked PSI to block three Druffner Group FA numbers (14, 15, 50) and all related FA numbers. The next day, the Druffner Group bought $240,000 of the Goldman Sachs Global High-Income Fund for Headstart using another FA number (M5).

g. On April 15, 2003, Munder notified PSI that it had blocked twenty accounts at the Boston branch, including six Headstart accounts, four Pentagon accounts, and two Global accounts. On April 25, 2003, the Peffer Group bought $95,000 of the Munder Tax-Free Short-Intermediate Bond Fund for Global using another account and another FA number. On May 2, 2003, the Druffner Group bought $75,000 of the Munder Balanced Fund for Headstart using another account. On August 26, 2003, the Druffner Group bought $125,000 of the same fund for Pentagon using another account.

h. On April 25, 2003, Seligman blocked one Global account from further purchases for ninety days. On April 28, 2003, the Peffer Group bought $80,000 of the Seligman International Growth Fund for Global using another account.

i. On June 13, 2003, PSI blocked eight Jemmco accounts and one Headstart account from Federated funds. On June 17, 2003, the Druffner Group bought $99,995 of the Federated High Income Fund for Headstart using another account. On July 1, 2003, the Druffner Group bought $649,995 of the Federated International Equity Fund for Jemmco using an account that had been opened on June 16.

j. On June 16, 2003, PSI blocked one Headstart account from AIM funds. Between June 20 and June 30, 2003, the Druffner Group bought $1,445,000 of two AIM funds for Headstart using three other accounts.

k. On July 29, 2003, PSI blocked three Headstart accounts from State Street Research funds. Between August 21 and September 4, 2003, the Druffner Group bought $2,270,000 of the State Street Research High Income Fund for Headstart using six other accounts and four FA numbers.

l. On July 29, 2003, PSI blocked one Global account from Credit Suisse funds. Between August 4 and August 21, 2003, the Peffer Group bought $1,505,000 of several Credit Suisse funds for Global using four other accounts and two other FA numbers.

48. The blocks imposed by the fund companies and by PSI thus did not prevent the defendant brokers from continuing to engage in market timing. In fact, as set forth in paragraphs

45 and 47 above and in the detailed company-by-company analysis in **Exhibit B**, each of the brokers routinely continued to submit purchases and exchanges for the very same clients to the very same fund companies. They defrauded the fund companies into processing the additional transactions because the fund companies could not readily determine that the latest accounts and FA numbers were related to the blocked accounts and FA numbers. The fund companies' frustration at being unable to prevent the brokers from using additional accounts and FA numbers to continue their market timing is reflected in their communications to PSI, including, without limitation, the following:

a. On August 9, 2001, Hartford sent a letter to Ficken telling him that he could not open new accounts, place trades, or receive trail commissions after September 10, 2001. The letter stated:

> We have sent you warnings that your trading behavior violates the policies and procedures established by The Hartford Mutual Funds, and we have terminated your exchange privileges on more than one occasion. Despite the warnings and terminations, you simply close one account and open another account. And, you continue to violate our prohibitions on market timing.

On September 28, 2001, Hartford sent an identical letter to Ajro.

b. On February 20, 2002, American Century sent an email to PSI with a list of brokers engaged in market timing. The email stated:

> Per our conversation, we need your help again in banning these firms/clients/reps/bin #s from doing business with American Century through Prudential, due to their harmful short-term trading. A lot of these we have seen before, and we don't want to seem them again... Since you have the ability to 'ban' from trading our funds, we want this done immediately. We don't want to see new bin #s [accounts] opened up for these investors, we want them stopped for good.

c. On April 3, 2002, AIM sent an email to PSI stating, "What we have seen scares us. It appears certain representatives are changing account registrations, tax id numbers, and branch and rep numbers in an effort to time the AIM funds. All of these accounts have been stopped, but each day 'new' ones pop up."

d. On June 7, 2002, Hartford sent a letter to PSI with a list of brokers whose investment privileges had been terminated due to disruptive trading practices. The list included Druffner as FA numbers 14 and MD, Ficken as FA numbers 15 and AF, and Druffner and Ficken jointly as FA number DF. The letter stated:

> Unfortunately, they have continued to invest in the Funds even after having their privileges revoked. They are apparently accomplishing this by using different representative numbers, names, branches and smaller investment amounts.

On November 22, 2002, Hartford sent a substantially similar letter to PSI, identifying Druffner, Ficken and Ajro by two more joint FA numbers (DA and FD).

e. On September 18, 2002, Ivy Funds sent an email to PSI listing several brokers to block, including seven FA numbers used by Ficken and Ajro. The email stated:

> Here are the additional REP ID's these brokers are using... They appear to be creating a new REP ID every time they do a new trade. Also, when new business comes in under these REP IDs, no broker name appears on the trade. We have to call Prudential each time to confirm who it is, and it's either Skifter Ajro, Justin Ficken or both as a shared trade... They are causing a lot of aggravation over here at Ivy Funds.

f. On December 19, 2002, Van Kampen sent an email to PSI with a list of brokers (including Druffner, Ficken and Ajro under nine of their FA numbers) who had been engaged in market timing in its funds. The email stated that Van Kampen had communicated with the brokers "about stopping their timing activity to no avail." The email continued:

> Over the past several months, we have placed stops on 325 of their accounts as of 11/30/02 and continue to add accounts daily. We see new accounts/rep ID combinations being opened and have determined that we are not able to continue chasing them within our funds. We feel our only course of action to protect our fund shareholders is to prohibit the attached list of reps from doing business with Van Kampen Funds... For the period of December 2001-November 2002 in the Van Kampen Funds, this group represents $44 million in sales, $12 million in redemptions, $2 billion in exchanges and $40 million in current assets.

On January 31, 2003, Van Kampen sent another email to PSI with another list of brokers (including Druffner, Ficken and Ajro under three more of their FA numbers) who had been engaged in market timing in its funds:

> These reps have multiple rep ids and have continued to add new ones as we block the ids within the NSCC trading system for our fund complex... These reps created close to $3 billion in exchanges last year with $75 million of assets during a time in which we placed stops on 350 of their accounts.

g. On April 15, 2003, Munder sent an email to PSI listing twenty market timing accounts at the Boston branch that had been blocked. The email stated:

> We are trying everything possible on our side to stop market timing, and make it as difficult as possible; but these reps do not seem to be getting it. I was wondering if there was something that you could do on your side to help us with the enforcement of our Market Timing policy? It just seems like we add another account to this list every day or so.

h. In addition, ING's block letters included the following language: "While we attempt to identify and freeze timed assets, those assets are frequently liquidated and return, shortly thereafter, in other ING Funds or sometimes even in the same fund/account."

Shannon's Knowing and Substantial
<u>Assistance to the Brokers' Scheme</u>

49. Shannon became the manager of the Boston branch in December 2001. At that time, market timing produced approximately 25% of the branch's revenues. By September 2003, market timing produced approximately 35% of the branch's revenues. As a result, the profitability of the defendant brokers' market timing was a substantial factor in the profitability of the branch, and Shannon, as a branch manager whose compensation was linked to the performance of the branch, had a significant financial incentive to assist the brokers' market timing.

50. As indicated above, the brokers' market timing activity involved hundreds, if not thousands, of separate transactions on an almost daily basis. Sometimes, the brokers and the administrative staff in the Boston branch staff could not process all the transactions before 4:00 p.m. When that happened, Shannon as branch manager authorized the staff to send the unfinished transactions to PSI's Mutual Fund Operations unit in New York for processing.

51. As soon as he became branch manager, Shannon began receiving copies of some of the fund company letters and emails to PSI complaining that the defendant brokers were engaged in excessive activity. PSI's internal records reflect that Shannon first received such a notice, an email from Putnam blocking Ficken from further trading in its funds, on December 10, 2001. Between December 2001 and September 2003, he received copies of more than one hundred letters and emails from at least 33 fund companies: ACM/Alliance (9), AIM (7), American Funds (3), Berger (1), Davis (1), Evergreen (6), Federated (4), Fidelity (2), Franklin Templeton (3), Goldman Sachs (2), Guardian (1), Harbor (1), Hartford (1), ING (1), Ivy (1), Janus (2), John Hancock (2), J.P. Morgan (4), Liberty (7), Mercury (1), One Group (1),

PBHG (1), Phoenix (4), Pioneer (2), Putnam (2), Scudder (8), Seligman (2), State Street (2), Thornburg (1), UBS (12), Van Kampen (2), Wells Fargo (8), and WM Group (1).

52. On January 9, 2002, Ficken sent an email to Shannon describing how the brokers responded to the fund companies' complaints about "excessive trading." First, the Mutual Fund Operations unit "codes an account once it has been flagged by a fund company, preventing any new purchase or exchange of the fund within the specific identified account." Second, "all information was passed on to us (i.e. which accounts, which reps, etc.) for both our and our clients' records." Third, "we continue to run other 'unflagged' accounts until they become an issue (if they ever do)." In other words, Ficken told Shannon exactly how the brokers' scheme operated – the fund companies blocked certain accounts and FA numbers, and the brokers continued their clients' trading in the same funds using different accounts and different FA numbers. (The day before, Peffer had sent an email to Shannon explaining that all of Global's accounts were under common control and that money was often transferred between accounts.)

53. Shannon thus learned within one month after becoming branch manager that: (a) the defendant brokers maintained multiple accounts for their clients and sometimes moved funds between a client's accounts; (b) the fund companies actively tried to restrict the brokers' excessive trading; and (c) the brokers used the clients' multiple accounts to evade the fund companies' restrictions on their trading.

54. Shannon provided knowing and substantial assistance to the brokers' scheme in several respects. First, he authorized them to open more customer accounts. When he became branch manager in December 2001, the brokers already had numerous accounts for their clients. Indeed, the Druffner Group already had 48 accounts for Headstart, eighteen for Pentagon, sixteen

for Ritchie, and ten for Chronos, and the Peffer Group had fourteen accounts for Global. Even though Shannon received numerous block letters from the fund companies and knew that the brokers were using multiple accounts to keep trading despite the blocks, he approved the opening of many more accounts between January 2002 and September 2003:

Date	*Client*	*Account #*	*Account Name*	*FA #*
1/10/02	Pentagon	ERS-95327 ERS-95328	M 10 P 10	DF DF
2/5/02	Headstart	ERS-95330 ERS-95331	Windsor 401-1 Ltd. Windsor 401-2 Ltd.	50 78
2/20/02	Chronos	041-96606	Abby Mills	78
3/4/02	Headstart	041-96617 ERS-95332 0BB-96847	Levi 401 Limited 4 Mercutio 401 Limited 4 Windsor 401-3 Ltd.	AD AD AD
4/3/02	Chronos	ERS-95333 ERS-95334	OXBO II JST Pan II	50 50
4/4/02	Jemmco	041-83283 041-83264 041-93265 041-83266 0BB-22931 0BB-22932 ERS-05756 ERS-05757 ERS-05758	Tuscany Capital Meladan Capital Jaguar Capital Sequential Capital Legion Capital Sherlock Capital Liverpool Capital Apricot Capital Raleigh Capital	0?? 14 15 AD 50 50 15 14 50
4/8/02	Chronos	ERS-95335	Havers II	15
4/17/02	Pentagon	ERS-95336 ERS-95337	PMP 11 Limited Performance 401-11	AF AF
4/26/02	Jemmco	041-96618 ERS-95338 ERS-95339	Triad International Campbell International Cornell International	15 15 0??
6/10/02	Global	041-96620	GACF	41
8/7/02	Chronos	041-96625 041-96626	EVBO II Rodgars Als II	50 AF
9/19/02	Headstart	ERS-95340	Ratings Holdings	DA
9/24/02	Headstart	0BB-96870	Credit Lyonnais	14
10/21/02	Headstart	041-96627	Credit Lyonnais	DA

Date	*Client*	*Account #*	*Account Name*	*FA #*
11/7/02	Pentagon	0BB-96877	PP 12	DA
		ERS-95341	MP 12	DA
11/27/02	Headstart	ERS-95343	CIBC Cayman CP-14	B6
12/2/02	Headstart	ERS-95347	Credit Lyonnais	DA
12/5/02	Headstart	0BB-96880	Aquilla 401-4	DA
		0BB-96883	Atlantis 401-1	DA
		041-96628	Atlantis 401-2	DA
		ERS-95348	Mandrake 401-5	FD
		ERS-95349	Atlantis 401 Limited 3	DA
	Jemmco	0BB-23580	Enterprise Capital	DA
		0BB-23581	Scorpio Capital	23
		ERS-05761	Virgo Capital	DA
		ERS-05762	Pyramid Capital	23
12/11/02	Jemmco	041-83403	Nautical Capital	FD
12/23/02	Pentagon	0BB-96889	Management Ltd 13	DA
		ERS-95351	Performance Limited 13	DA
1/6/03	Headstart	0BB-96899	Credit Lyonnais	DA
		ERS-95352	Credit Lyonnais	DA
1/7/03	Global	0BB-96900	Global Capital	J1
		0BB-96901	Global Analytical	J3
1/10/03	Headstart	0BB-96902	Credit Lyonnais	15
2/4/03	Summa	0BB-96907	Canco Ltd.	J1
		0BB-96908	Hilt Ltd.	J1
		0BB-96909	Parr Ltd.	41
2/5/03	Chronos	ERS-95354	CIBC Cayman XP-7	B6
2/27/03	Headstart	041-93558	Marks Securities	DA
		ERS-05763	Spencer Securities	DA
	Pentagon	0BB-96919	Pentagon Management 14	23
		ERS-95355	Pentagon Perform 14	23
		0BB-96920	Pentagon Performance 15	DA
		ERS-95356	Pentagon Management 15	DA
3/4/03	Headstart	041-83559	Spencer Securities II	23
		ERS-05764	Marks Securities II	DA
		ERS-05765	Ratings Holdings	DA
5/2/03	Headstart	0BB-23942	Galahad Securities	15
5/7/03	Headstart	0BB-96934	Credit Lyonnais	DA
		ERS-95357	Credit Lyonnais	DA
5/15/03	Jemmco	0BB-23966	Sapphire Partners	15

Date	Client	Account #	Account Name	FA #
6/16/03	Jemmco	0BB-24021 ERS-05770	Walnut Capital Taurus Capital	23 23

As reflected in the preceding table, Shannon approved 26 new accounts for Headstart, twelve for Pentagon, seven for Chronos, and three for Global after he became branch manager. Nearly all the names on the accounts were fictitious and bore little if any resemblance to the clients' actual names. Often, several accounts were opened for the same client on the same day under more than one FA number. In fact, when Jemmco became a Druffner Group client in April 2002, Shannon approved nine accounts under six FA numbers on a single day, and he later approved eleven more Jemmco accounts.

55. Shannon knew that opening these accounts would facilitate the defendant brokers' market timing and thus generate additional commissions for PSI. Indeed, on November 4, 2002, Ficken sent Shannon an email inquiring about the status of two new account applications for Pentagon. Ficken warned, "If I'm unable to open two more Accounts for them, I will be faced with sending back to them roughly $8,000,000, which is worth $160,000 in commissions."

56. Shannon also assisted the defendant brokers' scheme by authorizing them to obtain new FA numbers. For example, in February 2002, the Druffner Group obtained a new joint FA number (AD). In June 2002, PSI issued a policy tightening its procedures for issuing additional FA numbers to brokers and teams of brokers. The June 2002 policy required PSI's regional managers, in addition to the branch managers, to approve the issuance of all FA numbers. In late August and early September 2002, with approval from Shannon and the regional manager, the Druffner Group obtained two more joint FA numbers (DA and FD). In January 2003, the Druffner Group obtained yet another joint FA number (23). The Druffner

Group justified the new joint FA numbers by claiming that the numbers were needed to adjust the split of commissions. However, Shannon as branch manager knew or was reckless in not knowing that, regardless of the FA number which the Druffner Group submitted to the fund companies when making a purchase, virtually all of the Group's commissions from those purchases were split in the same manner – 70% to Druffner, 20% to Ficken, and 10% to Ajro.

57. Shannon also assisted the defendant brokers' scheme by failing to enforce Prudential's policies concerning market timing. For example, in August 1999, PSI issued a policy prohibiting market timing through the PruChoice program. The policy defined market timing as more than one trade per quarter or four trades per year. On September 26, 2002, PSI's Risk Management unit sent an email to Shannon listing brokers in his branch who were violating the April 1999 policy. The list included Druffner, Ficken, Ajro and Peffer. The list also identified 34 Druffner Group accounts and two Peffer Group accounts that had violated the policy. The next day, the regional manager sent an email to Shannon citing the Risk Management email and directing him, "Please be certain that the FA's [brokers] understand and adhere to the policy." On November 5, 2002, the regional manager sent another email to Shannon reminding him to "follow up directly with the FA's involved." Despite these clear directives from the Risk Management unit and the regional manager, Shannon did not ensure that the defendant brokers complied with the policy against market timing through the PruChoice program. For example, on February 25, 2003 – five months after Shannon was alerted by the Risk Management unit and the regional manager – Fidelity sent an email to PSI listing brokers who were trading excessively in its Advisor funds through the PruChoice program. The list included all five of the defendant brokers.

58. Shannon also failed to enforce PSI's January 2003 policy against market timing in non-proprietary mutual funds. As noted above, that policy required PSI brokers to adhere to the restrictions on the frequency of trading set forth in each fund's disclosure documents, and it prohibited "manipulative techniques" such as using "also" or joint FA numbers to conceal the broker's identity and opening new accounts to conceal the client' identity. PSI's Risk Management unit sent the January 2003 policy to Shannon and the other branch managers, and they were responsible for monitoring their brokers' compliance.

59. The dozens of fund company letters and emails which Shannon received after the January 2003 policy was issued made clear that the brokers were continuing to use multiple accounts and FA numbers to evade the restrictions on their activity – precisely the "manipulative techniques" which the policy prohibited. These notifications included, without limitation, the following:

a. On February 6, 2003, Shannon received a Van Kampen email which listed several brokers to block, including Druffner, Ficken and Ajro under three of their FA numbers, and stated, "These reps have multiple rep ids and have continued to add new ones as we block the ids within the NSCC trading system for our fund complex." (The Van Kampen email was similar to a September 18, 2002 email from Ivy Funds which he had also received. The Ivy email had listed several brokers to block, including seven FA numbers used by Ficken and Ajro, and stated, "Here are the additional REP ID's these brokers are using... They appear to be creating a new REP ID every time they do a new trade.")

b. On February 11, 2003, Shannon received an email from Federated blocking six Pentagon accounts, four Jemmco accounts, and two Headstart accounts. In March and April 2003, he received two more Federated emails blocking four more Headstart accounts and five more Pentagon accounts.

c. On February 24, 2003, Shannon received an email from Evergreen blocking six Druffner Group FA numbers. On March 13, 2003, he received a second email from Evergreen blocking five more Druffner Group FA numbers.

d. On March 20, 2003, Shannon received an email from Phoenix blocking six Chronos accounts.

e. On May 15, 2003, Shannon received an email from Seligman blocking seven Druffner Group FA numbers.

f. On June 2, 2003, Shannon received an email from Franklin Templeton blocking three Global accounts and an email from Scudder blocking seven Pentagon accounts, three Jemmco accounts, and one Global account.

60. Overall, PSI's internal records indicate that, after the January 2003 policy was issued, Shannon was informed that certain fund companies had blocked at least 25 Headstart accounts, seventeen Pentagon accounts, nine Global accounts, nine Chronos accounts, six Jemmco accounts, and two Summa accounts, and that certain fund companies had blocked each of the defendant brokers by name and by virtually all their FA numbers. Shannon usually received the fund company correspondence from personnel in the Risk Management unit with instructions to tell the brokers in question that they should comply with the fund company's restrictions. Shannon may have forwarded the fund company correspondence to the defendant brokers but, as reflected in paragraph 47 above and in Exhibit B, he failed to stop the brokers from using multiple accounts and FA numbers to evade the restrictions and continue their market

timing. Nor, despite receiving clear evidence of their violations, did he ever recommend that any of the defendant brokers be sanctioned or disciplined under the January 2003 policy.

Violation of PSI's Policy against
<u>Market Timing in the Prudential Funds</u>

61. On November 15, 2000, PSI issued a policy prohibiting market timing in the Prudential Funds (which included funds sold under the Prudential, Target and Strategic Partners labels). The policy defined market timing as more than one round-trip per quarter or four round trips per year. (A round-trip is an exchange from one fund to a second fund followed by an exchange back to the first fund.)

62. The defendant brokers immediately began to violate the policy by placing hundreds of exchanges involving the Prudential Funds in excess of the stated limit. For example, between January 1, 2001 and May 31, 2001, the Druffner Group made sixteen exchanges in one Headstart account and thirteen exchanges in a second Headstart account.

63. After he became branch manager in December 2001, Shannon was responsible for ensuring that the brokers in his branch adhered to the policy against market timing in the Prudential Funds. Shannon failed to do so, as the defendant brokers continued to violate the policy, including, without limitation, the following:

a. On January 4, 2002, the Druffner Group purchased $1 million of the Prudential Funds for Headstart. The Druffner Group then made exchanges in this account, as well as two other Headstart accounts, every few days through the fall of 2002. Indeed, by mid-October 2002, there had been more than sixty exchanges involving the Prudential Funds in each account since late 2001.

b. Between February 20 and April 16, 2002, the Druffner Group purchased a total of $2,725,000 of the Prudential Funds for Chronos using eight accounts and four FA numbers. The Druffner Group then made exchanges in these accounts nearly every week through the summer of 2002 and, for three of the accounts, through the fall of 2002.

c. On April 4, 2002, the Druffner Group purchased $1 million of the Prudential Funds for Jemmco. The Druffner Group then made more than 25 exchanges in the account through mid-August 2002.

d. Between May 31 and June 27, 2002, the Peffer Group purchased $1,288,000 of the Prudential Funds for Global using three accounts. The Peffer Group then made exchanges in these accounts every few days until the fall of 2002. Indeed, by November 7, 2002, there had been twenty or more exchanges involving the Prudential Funds in each of the accounts.

e. Between August 7 and September 9, 2002, the Peffer Group purchased $315,000 of the Prudential Funds for Global using three other accounts. The Peffer Group then made exchanges in these accounts every few days until late 2002. Indeed, by the end of year, there had been between ten and twenty exchanges involving the Prudential Funds in each of the accounts.

f. Between September 27 and October 8, 2002, the Druffner Group made three exchanges each in four Headstart accounts and one Chronos account, two exchanges each in five Chronos accounts and one Headstart account, and one exchange each in two Chronos accounts.

g. Between September 27, 2002 and November 10, 2002, the Peffer Group made eleven exchanges in one Global account, nine exchanges in a second Global account, seven exchanges each in a third and fourth Global account, six exchanges each in a fifth and sixth Global account, and two exchanges in a seventh Global account.

h. On October 14, 2002, PSI's Risk Management unit sent an email to Shannon listing brokers in his branch who were violating the policy against market timing in the Prudential Funds. The email included an October 9, 2002 email from PI's Mutual Fund Product Development unit stating:

> We have seen significant market timing activity from three FA's [brokers] and would like to restrict their ability to trade Pru/SP [Prudential and Strategic Partner] funds going forward. Note: we have processed over 100 trade reversals/cancellations for these brokers since Jan 2002. Effective immediately, please restrict the following FA's (Boston Branch – please include any other FA numbers they use – joint FA #, etc.) from trading in ALL Prudential and Strategic Partners mutual funds.

The three brokers were Druffner, Ficken and Ajro.

64. On November 11, 2002, PI's Mutual Fund Product Development unit announced that Peffer and Bilotti were blocked from all further trading in the Prudential Funds "as their Market Timing is difficult for our Portfolio Managers." Soon after, PSI's Mutual Fund Operations unit blocked Peffer and Bilotti's primary FA numbers (41 and 49) from further trading in the Prudential Funds.

65. Despite the internal block by PSI, the Peffer Group continued to make purchases and exchanges in the Prudential Funds in violation of the policy.

a. Between February 28 and March 17, 2003, the Peffer Group purchased a total of $175,00 of Prudential Funds for Global using two accounts with an FA number (J3) that had not been blocked. One of the accounts had been opened on January 7, 2003. The Peffer Group then made exchanges in these accounts every few days through May 2003.

b. Between April 24 and July 1, 2003, the Peffer Group made twelve exchanges in an account in the name of Philip Burke, one of Global's principals.

66. Shannon knew that the Peffer Group was continuing to violate the policy against market timing in the Prudential Funds. PSI's internal records indicate that, between October 2002 and August 2003, he received at least twenty emails stating that certain of the Peffer Group's purchases or exchanges in the Prudential Funds had been cancelled for violating the market timing policy. The notices concerned ten Global accounts as well as three accounts in the names of Global's principals. One Global account was the subject of five separate notices, while four Global accounts were the subject of two notices each. Even though they had been blocked from further trading in the Prudential Funds, and even though Shannon as branch manager was supposed to enforce the November 2000 market timing policy, he failed to stop the Peffer Group from continuing to violate the policy.

FIRST CLAIM FOR RELIEF
(Violations of Section 17(a) of the Securities Act
by Defendants Druffner, Ficken, Ajro, Peffer and Bilotti)

67. The Commission repeats and realleges paragraphs 1 through 66 above.

68. As set forth above, defendants Druffner, Ficken, Ajro, Peffer and Bilotti, directly and indirectly, acting intentionally, knowingly or recklessly, in the offer or sale of securities by the use of the means or instrumentalities of transportation or communication in interstate commerce or by use of the mails: (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 a

material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) engaged in transactions, acts, practices or courses of business which operated as a fraud or deceit upon purchasers of securities.

69. As a result, defendants Druffner, Ficken, Ajro, Peffer and Bilotti violated Section 17(a) of the Securities Act [15 U.S.C. §77q(a)], and their violations involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements and resulted in substantial losses or significant risk of substantial losses to other persons, within the meaning of Section 20(d) of the Securities Act [15 U.S.C.§77t(d)].

SECOND CLAIM FOR RELIEF
(Violations of Section 10(b) of the Exchange Act and Rule 10b-5
by Defendants Druffner, Ficken, Ajro, Peffer and Bilotti
or, in the alternative, Aiding and Abetting the Uncharged Violations of
Section 10(b) and Rule 10b-5 by Certain of Their Clients)

70. The Commission repeats and realleges paragraphs 1 through 69 above.

71. As set forth above, defendants Druffner, Ficken, Ajro, Peffer and Bilotti, directly or indirectly, acting intentionally, knowingly or recklessly, by the 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 omitted to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices or courses of business which operated as a fraud or deceit upon certain persons.

72. As a result, defendants Druffner, Ficken, Ajro, Peffer and Bilotti violated Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 [17 C.F.R. §240.10b-5] thereunder, and their violations involved fraud, deceit, or deliberate or reckless disregard of

regulatory requirements and resulted in substantial losses or significant risk of substantial losses to other persons, within the meaning of Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d)(3)].

73. In the alternative, defendants Druffner, Ficken, Ajro, Peffer and Bilotti knowingly or recklessly provided substantial assistance to, and thus aided and abetted, the uncharged violations of Section 10(b) of the Exchange Act and Rule 10b-5 committed by their clients in connection with the market timing transactions alleged above.

THIRD CLAIM FOR RELIEF
(Aiding and Abetting the Other Defendants' Violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by Defendant Shannon)

74. The Commission repeats and realleges paragraphs 1 through 73 above.

75. As set forth above, defendant Shannon provided knowing and substantial assistance to the market timing activities of defendants Druffner, Ficken, Ajro, Peffer and Bilotti.

76. As a result, defendant Shannon aided and abetted the violations of Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 [17 C.F.R. §240.10b-5] thereunder by defendants Druffner, Ficken, Ajro, Peffer and Bilotti.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

A. Enter a permanent injunction restraining defendants Druffner, Ficken, Ajro, Peffer and Bilotti and their respective agents, servants, employees and attorneys and those persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, including facsimile transmission or overnight delivery service, from directly or indirectly engaging in violations of Section 17(a) of the Securities Act [15 U.S.C. §77q(a)] and Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5];

B. Enter a permanent injunction restraining defendant Shannon and his agents, servants, employees and attorneys and those persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, including facsimile transmission or overnight delivery service, from directly or indirectly engaging in violations of Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5];

C. Order each defendant to disgorge his ill-gotten gains, plus pre-judgment interest;

D. Order each defendant to pay an appropriate civil monetary penalty pursuant to Section 20(d) of the Securities Act [5 U.S.C. §77t(d)] and/or Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d)(3)]; and

E. Award such other and further relief as the Court deems just and proper.

Respectfully submitted,

____

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