

JUDGE CROTTY
UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

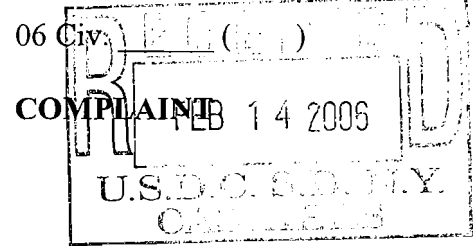
SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

LORI G. ADDISON,

Defendant.



Plaintiff Securities and Exchange Commission alleges:

Introduction

1. From at least April 2001 to October 2001, Lori G. Addison, a trader at Allied Irish Banks, p.l.c. (“Allied Irish”), conspired with sales representatives from two brokerage firms to misrepresent to Allied Irish the value of its collateralized mortgage obligation (“CMO”) portfolio.¹

2. At the end of each month, Allied Irish would seek independent valuations of its CMO portfolio. In connection with that process, and before the portfolio’s valuations were reported back to Allied Irish, Addison would secretly convey to the sales representatives a valuation she considered desirable for each security reported upon by their firm. In virtually all of these purportedly independent valuations, without disclosing her role in the process, the sales

¹ A CMO is a security that represents ownership of an undivided interest in a group of mortgages. Principal and interest from the individual mortgages are used to pay investors’ principal and interest on the CMO. CMOs are structured so that there are several classes of bondholders and may have different yield and price volatility characteristics than the underlying mortgages from which they were created. The principal payments from the underlying pool of pass-through securities are used to retire the bonds on a priority basis as specified in a prospectus. The distinguishing feature of a CMO is that the CMO allows for the distribution of prepayment risk among the various bond classes.

representatives reported to Allied Irish the inflated CMO prices dictated by Addison. As a result, for several months, the bank's CMO portfolio appeared to be more profitable than it actually was.

3. On the strength of the reported profitability of Allied Irish's CMO portfolio, Addison was allowed increased capital levels to make further securities purchases. The false and misleading valuation reports orchestrated by Addison deceived Allied Irish and would have increased Addison's bonus and standing at the bank, if her misconduct had not been discovered before the end of the 2001 review period. Ultimately, when the discrepancy between the actual and reported value of the CMO portfolio came to light, Allied Irish liquidated its CMO portfolio at a substantial loss, ceased investing in CMOs, and terminated Addison's employment.

Jurisdiction

4. The Commission brings this action pursuant to Section 21(d) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78(u)(d)].

5. The Court has jurisdiction over this action pursuant to Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa]

6. Defendant made use of the means or instrumentalities of interstate commerce, or of the mails, or of the facilities of a national securities exchange in connection with the transactions, acts, practices, and courses of business alleged herein.

7. Defendant will, unless restrained and enjoined, continue to engage in the acts, practices, and courses of business alleged herein, or in transactions, acts, practices, and courses of business of similar purport and object.

Defendant

8. Lori G. Addison, age 46, is a Fairfield, Connecticut resident. From December 1999 through December 2001, Addison was a vice president at Allied Irish, where she managed the bank's CMO portfolio. Prior to her employment with Allied Irish, Addison was a trader at a brokerage firm based in New York City ("Firm A").

Facts

9. As an Allied Irish trader responsible for the bank's CMO portfolio, Addison was evaluated annually, and the performance of the portfolio was the principal component of that review. Addison's annual bonus was determined on the basis of that evaluation.

10. In September 2000, Allied Irish instituted a formal CMO valuation process. The valuation process involved averaging pricing information from at least three sources: (1) Merrill Lynch & Co. ("Merrill Lynch"); (2) Firm A; and (3) the firm from which a particular bond had been purchased. The Merrill Lynch prices were obtained directly by Allied Irish's Financial Control and Accounting Department ("Accounting Department"), by accessing pricing information from the Bloomberg Professional Service ("Bloomberg"). For the remaining sources, on the last business day of each month, the Accounting Department faxed pricing sheets listing all the bonds in its portfolio directly to sales representatives at Firm A and the firms where the bonds had been purchased. The firms would then transmit the completed pricing sheets back to the Allied Irish Accounting Department. The Accounting Department then averaged the prices and incorporated them in a month-end profit and loss ("P&L") report distributed to senior executives at Allied Irish.

11. Although Addison purportedly had no role in the CMO valuation process, from

approximately April to October 2001, she manipulated the value of Allied Irish's CMO portfolio by routinely intervening to ensure that a sales representative she knew at a major brokerage firm ("Firm B") and a sales representative she knew at Firm A were informed of the prices she wanted them to submit on the Allied Irish monthly pricing sheets. This allowed her to dictate inflated prices to the sales representatives before they reported their valuations to Allied Irish.

12. Allied Irish routinely taped the telephone conversations going to or emanating from its trading desk. With few exceptions, transcripts of Addison's telephone calls with the two sales representatives, near the end of each month, indicate that the prices the sales representatives faxed back to the Accounting Department were the same bond prices Addison provided to them.

13. In fact, without exception, the price for every bond Addison dictated to the sales representative at Firm B between August and October 2001 was reflected in the pricing sheets that Firm B faxed back to Allied Irish. The following is an excerpt from a conversation between Addison and that sales representative that took place on October 31, 2001:

Addison:	Okay, are you ready?
Representative:	Yeah, what do you got?
Addison:	Do you have it?
Representative:	Yeah, right in front of me.
Addison:	All I did is mark them up a point from last month.
Representative:	Alright, what do you got?

14. The sales representative at Firm A became acquainted with Addison during the time they both were employed by that firm. Transcripts of calls between the Firm A sales representative and Addison reveal an intentional inflation of the value of the Allied Irish portfolio. For example, on October 31, 2001, Addison explained to the sales representative that "[t]he 7As have to be at 98.24, 98 and 24, because here's why. Bloomberg prices them at 74 so with [that] price I get it down to 89 so that's good." The Firm A sales representative would record on the

Allied Irish pricing sheet the prices provided by Addison and transmit it back to the Accounting Department. An example of this practice is reflected in an excerpt from a conversation between Addison and the sales representative that took place on July 31, 2001:

Addison: And 9860B 101 and 2. And if you wanted to mark them all up a plus, it wouldn't hurt my feelings.
Representative: Gotcha.
Addison: Except for the 11Ls don't mark them up anymore.
Representative: And the 11Ls you had at what price?
Addison: Par...[E]verybody that's at par leave at par.
Representative: Okay.

15. The portfolio inflation was discovered at the end of October 2001 when Addison's assistant was asked to generate her month-end reports while she was out of the office on sick leave. When Addison's assistant received prices back from Firm A and other firms, he became concerned that the prices were too high and brought the prices to the attention of Addison's supervisor. The supervisor then asked Addison's assistant to have the entire portfolio priced by Merrill Lynch, as an objective source. Merrill Lynch confirmed what the assistant suspected: the prices had been inflated.

16. When Addison returned to work, her supervisor questioned her about the CMO pricing. In the supervisor's estimation, recent market events should have reduced the CMO portfolio value significantly. However, under Addison's control the portfolio had continued to increase significantly in value. Bloomberg reports for CMO pricing during 2001 showed a sharp drop in the published prices of almost every bond in Allied Irish's portfolio. Nevertheless, Addison's own daily P&L reports, purportedly based on pricing information from Bloomberg, reflected no such drop.

17. After its discovery of Addison's deception, Allied Irish liquidated its CMO portfolio at a

substantial loss, ceased investing in CMOs, and terminated Addison's employment.

Claim

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

18. Paragraphs 1 through 17 are incorporated by reference.

19. As a consequence of the foregoing, the Defendant, directly or indirectly, by the use of the means or instruments of interstate commerce, or of the mails, or of a facility of a national securities exchange, knowingly or recklessly: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, transactions, practices, and courses of business which operated or would operate as a fraud or deceit upon the purchasers of securities and upon other persons, in connection with the purchase or sale of a security.

20. In connection with the above-described acts or omissions, the Defendant acted knowingly or recklessly.

21. By reason of the foregoing, the Defendant has violated 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].

Prayer for Relief

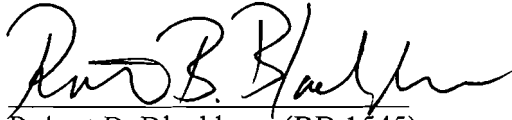
WHEREFORE, the Commission respectfully requests a judgment:

(A) permanently enjoining the Defendant from violating Section 10(b) of the Exchange Act and Rule 10b-5 thereunder;

(B) compelling the Defendant to pay civil penalties in an amount to be determined by the Court; and

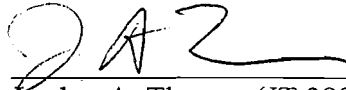
(C) granting such other relief as the Court deems just and proper.

Dated: February 10, 2006



Robert B. Blackburn (RB 1545)

Local Counsel for Plaintiff
Securities and Exchange Commission
3 World Financial Center, Rm. 4300
New York, NY 10281-1022
Phone: (212) 336-1050
E-mail: BlackburnR@SEC.GOV
Fax: (212) 336-1317



Jordan A. Thomas (JT 2886)

Scott W. Friestad
James T. Coffman
Jordan A. Thomas
David A. Frohlich
Margaret A. Cain
Grayson D. Stratton

Attorneys for Plaintiff
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549
(202) 551-4475 [Thomas]
(202) 772-9245 [Thomas FAX]