

**UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA**

SECURITIES AND EXCHANGE  
COMMISSION,  
100 F Street, NE  
Washington, DC 20549  
Plaintiff,

v.

ADAM M. LLOYD, CARL D. UDLER,  
AND HOWARD J. MILLER,  
Defendants.

**Civil No. 06 2106**

**COMPLAINT**

Plaintiff Securities and Exchange Commission (the “Commission”) alleges for its complaint against Adam M. Lloyd (“Lloyd”), Carl D. Udler (“Udler”), and Howard J. Miller (“Miller”) as follows:

**NATURE OF THE ACTION**

1. This action concerns the violation of federal securities laws by Lloyd, Udler, and Miller in two separate instances of insider trading in the securities of PEC Solutions, Inc. (“PEC”). The first instance involved PEC’s March 13, 2003 announcement that it was revising its financial guidance for the first quarter 2003 and for the year ending December 31, 2003 (the “March 2003 Announcement”). PEC’s shares fell 37 percent the next day as a result of this unscheduled earnings announcement. On March 12, 2003, the day before the public announcement,

Lloyd sold short 6,000 shares of PEC on the basis of material, non-public information he misappropriated from his father, who was then the Chief Financial Officer of PEC. Lloyd covered his short sale on March 18, 2003 and made a profit of \$41,540. Lloyd tipped Udler about the March 2003 Announcement and Udler, in turn, tipped Miller. Udler sold 625 shares of PEC on the day before the March 2003 announcement, and thereby avoided a loss of approximately \$3,713. Miller purchased put options in PEC a few days before the March 2003 Announcement and subsequently sold those shares for an \$11,300 profit.

2. The second instance of insider trading involved the acquisition of PEC by Nortel Networks Corp. (“Nortel”). Prior to the opening of the market on April 26, 2005 Nortel announced its tender offer to purchase PEC (the “April 2005 Announcement”). In the weeks prior to the April 2005 Announcement, Lloyd misappropriated material, non-public information from his father regarding the acquisition and, on the basis of that information, purchased 10,400 shares of PEC which he sold after the April 2005 Announcement for a profit of approximately \$30,480. Lloyd tipped Udler about the April 2005 Announcement and Udler, in turn, tipped Miller. Udler and Miller each purchased PEC call options in the weeks prior to the April 2005 Announcement and liquidated their options on the day of the announcement for profits of approximately \$49,251 and \$31,260, respectively.

3. By conduct detailed in this Complaint, Lloyd, Udler, and Miller violated Sections 10(b) and 14(e) of the Securities Exchange Act of 1934 [15 U.S.C. § 78j(b), 78n(e)] (the “Exchange Act”) and Rules 10b-5 [17 C.F.R. § 240.10b-5] and 14e-3 [17 C.F.R. § 240.14e-3] thereunder, through the means or instrumentalities of interstate commerce, the mails or the facilities of a national securities exchange.

### **JURISDICTION**

4. The Court has jurisdiction over this action under Sections 21A and 27 of the Exchange Act [15 U.S.C. §§ 78u-1 and 78aa].

### **DEFENDANTS**

5. Lloyd, age 36, is a Maryland resident. His father was the Chief Financial Officer of PEC during the relevant time period.

6. Udler, age 36, is a Maryland resident. He is a childhood friend of Lloyd.

7. Miller, age 38, is a Maryland resident. He is a friend of Udler.

### **RELATED PARTY**

8. PEC Solutions, Inc. is a Fairfax, Virginia based government information technology services entity.

## FACTS

### The March 2003 Announcement

#### **Lloyd Traded on Material, Non-Public Information Misappropriated From his Father**

9. On March 13, 2003 PEC announced it was revising its financial guidance for the first quarter and for the year ending December 31, 2003. As a result of this unscheduled earnings announcement PEC's shares fell 37 percent the next day. Lloyd's father, the then Chief Financial Officer of PEC, learned a few days prior to the March 2003 Announcement that PEC was not going to meet its quarterly or yearly expectations. Lloyd's father worked at home on documents that contained material, non-public information regarding PEC's financial status. Prior to the March 2003 Announcement, Lloyd misappropriated from his father information that PEC was going to revise downward its previously announced financial guidance.

10. After misappropriating the information from his father, on March 12, 2003, the day before the unscheduled March 2003 Announcement, Lloyd sold short 6,000 shares of PEC at \$16.20 per share and also sold short 1,000 shares of PEC at \$16.30 per share. Lloyd covered his short sales on March 18, 2003 and made a profit of \$41,540.

**Lloyd Tipped Udler Who Then Traded on Material,  
Non-Public Information**

11. On or before March 12, 2003 Lloyd tipped Udler that PEC was going to publicly announce “adverse news” within a couple days and advised him to sell any shares he held in PEC.

12. Udler, Lloyd’s childhood friend, knew that Lloyd’s father was the Chief Financial Officer of PEC and believed that Lloyd’s tip was based on information obtained from Lloyd’s father.

13. Based on Lloyd’s tip, Udler sold 625 PEC shares at \$15.75 per share on March 12, 2003, avoiding a loss of \$3,713.

**Udler Tipped Miller Who Then Traded on Material,  
Non-Public Information**

14. On or before March 13, 2003 Udler tipped Miller that PEC was going to announce “adverse news” and inquired as to how one could make “some money” in the market armed with the information that an entity’s stock price would most likely decline in the near future.

15. On or before March 13, 2003 Miller and Udler decided to purchase options together. Miller agreed to place the option trades in his account.

16. On March 13, 2003 Miller purchased 20 March series put options with a strike price of \$17.50 and sold those options on March 17, 2003 for a profit of \$11,300.

## **The April 2005 Announcement**

### **Lloyd Traded on Material, Non-Public Information Misappropriated From his Father**

17. Prior to the opening of the market on April 26, 2005, Nortel announced its tender offer to purchase PEC (the “Merger”) at a price of \$15.50 per share. As a result of this announcement, PEC’s shares rose 35 percent the next trading day.

18. Lloyd’s father learned that Nortel was interested in purchasing PEC on March 17, 2005.

19. On March 28, 2005 Lloyd purchased 1,800 shares of PEC at \$12.15 per share.

20. Sometime prior to March 28, 2005, Lloyd misappropriated from his father information that Nortel intended to acquire PEC.

21. On or before March 29, 2005 Lloyd’s father learned the general terms of the Merger, including the agreed upon price of \$15.50 per share.

22. On April 4 and 5, 2005 Lloyd purchased 5,000 and 3,600 PEC shares, respectively.

23. Sometime prior to April 4, 2005, Lloyd misappropriated from his father, either directly or indirectly, information that Nortel intended to acquire PEC at a price of \$15.50 per share.

24. Between March 28, 2005 and April 5, 2005 Lloyd purchased a total 10,400 PEC shares on margin, increasing his previously held 1600 share position by 650% in approximately one week.

25. Lloyd sold his 10,400 shares at \$15.50 on June 3, 2005, realizing a profit of approximately \$30,480.

**Lloyd Tipped Udler Who Then Traded on Material,  
Non-Public Information**

26. On or before April 1, 2005 Lloyd tipped Udler that PEC was being acquired by Nortel.

27. On or before April 11, 2005 Lloyd tipped Udler to the \$15.50 per share acquisition price and the general timing of the Merger.

28. Sometime between April 11 and April 19, 2005, Lloyd tipped Udler to a new Merger announcement date that was within one business day of the actual announcement date of April 26, 2005.

29. On or before April 19, 2005 Lloyd tipped Udler that the April 2005 Announcement would be made on or before April 23, 2005.

30. Based on Lloyd's tip, Udler purchased 200 May series call options on April 19, 2005 at a strike price of \$12.50 and liquidated them on April 26, 2005, the actual day of the April 2005 Announcement, at a profit of \$48,655.

**Udler Tipped Miller Who Then Traded on Material,  
Non-Public Information**

31. On or before April 1, 2005 Udler tipped Miller that PEC was being acquired.

32. On or before April 11, 2005 Udler tipped Miller to the share price and announcement date of the Merger.

33. Miller knew that Udler's source was Lloyd and that Lloyd's father was the Chief Financial Officer of PEC.

34. Based solely on Udler's tip, Miller purchased a total of 148 May series call options with a strike price of \$12.50 during April 2005.

35. Miller liquidated all of his call options on April 26, 2005, the day of the Merger announcement, for a profit of \$40,700.

**FIRST CLAIM – Violation of Section 10(b) of the Exchange Act and Rule  
10b-5 Thereunder [15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5]**

36. The Commission incorporates the allegations in paragraphs 1-35 as though fully set forth in this paragraph.

37. Lloyd, Udler, and Miller engaged in the trading described above while in possession of material, non-public information.

38. At all relevant times herein, Lloyd knew that any non-public information regarding PEC that he misappropriated from his father, including the

information about the March 2003 Announcement and the April 2005 Announcement, was confidential.

39. At all relevant times herein, Lloyd's father expected that Lloyd would keep confidential any non-public information he learned, directly or indirectly, from him about PEC.

40. Lloyd knew, or was reckless in not knowing, that he violated his duty of trust and confidence to his father by trading in PEC securities before the March 2003 and April 2005 Announcements based on material non-public information he misappropriated from his father and by tipping Udler regarding those events.

41. Udler knew, or should have known, that the information he received from Lloyd about PEC shortly before the March 2003 and April 2005 Announcements was material non-public information and that the information had been disclosed in violation of a duty of trust and confidence.

42. Miller knew, or should have known, that the information he received from Udler about PEC shortly before the March 2003 and April 2005 Announcements was material non-public information and that the information had been disclosed in violation of a duty of trust and confidence.

43. By reason of the foregoing, Lloyd, Udler and Miller, each violated Section 10(b) of the Exchange Act and Rule 10b-5.

44. Unless restrained and enjoined, Lloyd, Udler and Miller will continue to violate those statutory and regulatory provisions.

**SECOND CLAIM – Violation of Section 14(e) of the Exchange Act and Rule 14e-3 Thereunder [15 U.S.C. § 78n(e) and 17 C.F.R. § 240.14e-3]**

45. The Commission incorporates the allegations in paragraphs 1-44 as though fully set forth in this paragraph.

46. At the time of the tipping and trading in the securities of PEC described above in April 2005, Nortel had taken a substantial step or steps toward commencing a tender offer for PEC securities.

47. Lloyd, Udler and Miller purchased PEC securities while in possession of material information relating to the tender offer, and while knowing or having reason to know that the information was non-public and had been acquired directly or indirectly from Lloyd's father.

48. By reason of the foregoing, Lloyd, Udler and Miller each violated Section 14(e) of the Exchange Act and Rule 14e-3.

49. Unless restrained and enjoined, Lloyd, Udler and Miller will continue to violate those statutory and regulatory provisions.

**PRAYER FOR RELIEF**

WHEREFORE, the Plaintiff Commission respectfully requests that this Court enter Orders:

- (i) permanently enjoining Lloyd, Udler and Miller from violating Sections 10(b) and 14(e) of the Exchange Act [15 U.S.C. § 78j(b), 78n(e)] and Rules 10b-5 [17 C.F.R. § 240.10b-5] and 14e-3 [17 C.F.R. § 240.14e-3] thereunder;
- (ii) directing that Lloyd, Udler and Miller disgorge all profits realized from the unlawful conduct alleged herein, plus prejudgment interest;
- (iii) directing that Lloyd, Udler and Miller pay civil money penalties pursuant to Section 21A of the Exchange Act [15 U.S.C. § 78u-1]; and
- (iv) granting such other relief as this Court may deem just and equitable.

Respectfully Submitted,

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Mark Adler (Deputy Chief Litigation Counsel)  
Mark J. Kreitman (DC Bar No. 260828)  
J. David Fielder  
James Eichner (DC Bar No. 460587)  
Liban A. Jama (DC Bar No. 472951)

Attorneys for Plaintiff  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-4010A  
Telephone: (202) 551-4402 (Adler)  
Facsimile: (202) 772-9245 (Adler)  
AdlerMA@sec.gov

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