



## SUMMARY OF ALLEGATIONS

1. This action concerns two interrelated fraudulent schemes perpetrated by six individuals and four entities involved in the securities lending industry, colloquially known as the "stock loan" business. From July 2000 through June 2006, D. DeMizio and Sherlock, two stock loan traders employed by Morgan Stanley & Co., Inc. ("Morgan Stanley"), and three other individuals, skimmed millions of dollars in stock lending profits from Morgan Stanley and a broker-dealer division of The PNC Financial Services Group Inc. ("PNC") through their illegal kickback schemes with Lupo, a stock loan "finder." Clinton, Lupo's finder firm, collected over \$4 million in improper finder fees as a result of these schemes, and Lupo paid over \$1 million in undisclosed kickbacks to some of the other defendants.

2. In the first scheme, D. DeMizio and Sherlock caused Morgan Stanley to enter into thousands of unnecessary loan transactions at inferior interest rates for the purpose of artificially generating finder fees for Lupo. In exchange, Lupo paid cash kickbacks directly to Sherlock in cash and paid a total of nearly \$600,000 to shell companies controlled by C. DeMizio, D. DeMizio's brother, and Tramontozzi, Sherlock's brother-in-law and a full-time pharmacist. The scheme was designed to circumvent Morgan Stanley's prohibition against payments to finders and to enrich the participants and their families at Morgan Stanley's expense.

3. Rather than seek a lender or borrower for Morgan Stanley stock loan orders at the best available rates -- which Morgan Stanley stock loan traders could have readily done given Morgan Stanley's market power -- D. DeMizio and Sherlock caused Morgan Stanley to run orders at inferior interest rates through an intermediary brokerage firm selected by Lupo that, unlike Morgan Stanley, allowed payments to finders. The sole purpose of the loans to these "run-through" firms was to generate a finder fee to Clinton. In these transactions, the rates at which

Sherlock and D. DeMizio caused Morgan Stanley to lend or borrow the stock were inferior to the rates that the ultimate borrower was paying to -- or the actual source was charging -- the run-through firm. Clinton's finder fee was paid out of the profit made by the run-through firm, which in turn came out of the profit that Morgan Stanley could have otherwise earned on the transaction.

4. In the second scheme, Miller, a finder and former stock loan trader at Morgan Stanley, paid undisclosed cash kickbacks to a stock loan trader at PNC in exchange for receiving PNC stock loan orders from the trader ("PNC Trader"). Lupo and others participated in and shared the profits from this scheme. From January 2002 to June 2004, Lupo and Miller split over \$1.2 million in finder fees generated by PNC orders. Miller used some of his portion of the fees to pay cash kickbacks to the PNC Trader. Miller ended his arrangement with Lupo in May 2003, but Miller continued the kickback scheme with the PNC trader on his own until January 2005.

5. By virtue of the foregoing conduct, each of the defendants, directly or indirectly, singly or in concert, violated Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)], Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]; and defendants C. DeMizio, CD Management, Tramontozzi and DFT are also liable in the alternative, pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], for aiding and abetting the 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] committed by defendants D. DeMizio, Sherlock, Lupo, and Clinton. Unless each of the defendants is permanently restrained and enjoined, they will again engage in the acts, practices,

