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JAN 20 2005

LUTHER D. THOMAS, Clerk
By: *[Signature]* Deputy Clerk

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

	:	
SECURITIES AND EXCHANGE COMMISSION,	:	
	:	
Plaintiff,	:	Civil Action
	:	File No.
v.	:	1:05-CV-0164
SUSANA P. LONGO	:	
	:	
Defendant.	:	
	:	

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COMPLAINT FOR RELIEF

The Securities and Exchange Commission ("Commission") files this Complaint for injunctive and other relief and alleges as follows:

INTRODUCTION

1. Susana P. Longo misappropriated at least \$5.4 million of investor funds between May 1, 2000, and April 15, 2004, while she was the vice president of compliance at Applied Financial Group, Inc., an Atlanta-based, registered investment adviser.

2. The misappropriated funds came from four profit-sharing plans. Three of these plans were advisory clients of Applied Financial Group and one was a client of a related pension plan administrator, Applied Financial Concepts, Inc.

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Pretrial instructions
The USA
[Signature]

3. To carry out her scheme, Longo forged clients' signatures on checks and letters of authorization, fraudulently transferred cash and securities from the accounts of the profit-sharing plans through accounts held by two other elderly clients to her own accounts, falsified the account statements that Applied Financial Group sent to these clients to conceal her conduct, and misrepresented material facts regarding the performance of clients' portfolios.

4. As a result of her conduct, Longo has engaged in, and unless restrained and enjoined by this Court, will continue to engage in, acts and practices that violate and or aid and abet violations of Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)] and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78j(b)] and Rule 10b-5thereunder [17 C.F.R. §§ 240.10b-5] and Section 206(1) and 206(2) of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. §§ 80b-6(1) and 80b-6(2)].

JURISDICTION AND VENUE

5. This Court has jurisdiction over this action pursuant to Sections 20(b) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b) and 77v], Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e) and 78aa], and Sections 209(d) and 209(e) of the Advisers Act [15 U.S.C. §§

80b-9(d)-(e)].

6. Venue is proper in this district pursuant to 28 U.S.C. § 1391(b)(1) and (2); Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Section 27 of the Exchange Act [15 U.S.C. § 78aa] and Section 209 of the Advisers Act [15 U.S.C. § 80b-9]. Longo resides in this district and certain of the actions set forth herein, including the misappropriation of client funds, occurred within this district.

7. Longo, directly and indirectly, has made use of the mails, the means and instruments of transportation and communication in interstate commerce, and the means and instrumentalities of interstate commerce, in connection with the transactions, acts, practices and courses of business alleged in this Complaint.

THE DEFENDANT

8. Susana P. Longo, 46, resides in Norcross, Georgia. She joined Applied Financial Group in 1995 to assist its portfolio managers with processing trades, responding to clients' questions, reconciling accounts, and to assist the firm with all of its back-office procedures.

9. From 1999 until her termination in 2004, Longo also served as Applied Financial Group's vice president of compliance.

A. Applied Financial Group's Advisory Business

10. Applied Financial Group provides a full range of fee-based investment advisory services to individual and institutional clients. The firm has only two portfolio managers, Dennis Holcombe and his son, Russell Holcombe.

11. Dennis Holcomb, who founded Applied Financial Group, is also the firm's only director and its chief executive officer.

12. Russell Holcomb also serves as Applied Financial Group's president.

13. In 2000, Applied Financial Group managed over \$75 million for approximately 70 clients. By the beginning of 2004, it managed assets valued at over \$115 million for approximately 90 clients.

14. Dennis Holcombe also founded Applied Financial Concepts, a pension plan administrator that shares office space with Applied Financial Group.

15. Many of Applied Financial Group's advisory clients are also clients of Applied Financial Concepts.

B. The Clients Defrauded By Longo

16. Longo misappropriated at least \$5.4 million from four profit-sharing

plans. Three of these plans, the Baker Audio Profit-Sharing Plan, the Oral & Maxillofacial Surgery Associates, P.A. Profit-Sharing Plan, and the Gynecology & Obstetrics of DeKalb, P.C. 401(k) Profit-Sharing Plan, used Applied Financial Concepts as their plan administrator and Applied Financial Group as their investment advisor.

17. The other plan, Global Imports Profit-Sharing Plan, used Applied Financial Concepts as its plan administrator, but did not use Applied Financial Group.

18. As part of her scheme, Longo funneled the funds she misappropriated from these profit-sharing plans through the accounts of either Loretta Porter or Jean Scaglione, two elderly advisory clients of Applied Financial Group.

19. The cash and securities of all these clients were held in brokerage accounts at an unaffiliated broker-dealer, Charles Schwab ("Schwab"). Each of those brokerage accounts had check-writing privileges.

20. All of these clients executed limited powers of attorney prepared by Applied Financial Group and Schwab, which gave Applied Financial Group the authority to manage and direct trades in their accounts. However, the limited powers of attorney from Schwab prohibited Applied Financial Group from withdrawing or transferring funds from the client's account without the

client's authorization.

(1) The Four Profit-Sharing Plans

21. Baker Audio, Inc. designs and installs audio systems in commercial buildings. In the spring of 2000, Baker Audio's profit-sharing plan was valued at approximately \$2.6 million and had approximately 30 participants.

22. Global Imports is a BMW dealership. In the spring of 2000, Global Imports' profit-sharing plan was valued at approximately \$1.8 million and had approximately 80 participants.

23. Oral & Maxillofacial Surgery Associates and Gynecology & Obstetrics of DeKalb are two physician groups. In the spring of 2000, their profit-sharing plans were valued at approximately \$5 million and \$5.3 million, respectively, and had approximately 40 and 70 participants, respectively.

24. The trustees of Baker Audio and Global Imports authorized Applied Financial Concepts to keep and maintain the checkbooks for their plan's money market accounts at Schwab.

25. As a result, when participants in either of those plans requested a withdrawal of funds or a loan authorized by their plan, an employee of Applied Financial Concepts prepared an unsigned check and sent it, along

with the requisite paperwork, to the appropriate trustee to be signed.

26. The trustee was responsible for delivering the check to the participant after it had been signed, and for returning the signed paper work to Applied Financial Concepts.

27. No one at Applied Financial Group or Applied Financial Concepts was authorized to sign checks for any of the clients at issue.

(2) Loretta Porter

28. Loretta Porter, an Atlanta resident, was an advisory client of Applied Financial Group. Longo used Porter's brokerage account to funnel the funds she misappropriated from the accounts held by the Baker Audio and Global Imports profit-sharing plans.

29. Because Porter's diabetes and carpal tunnel syndrome precluded her from writing the checks necessary to pay her bills, Dennis Holcombe instructed Longo to meet with Porter once a month at Applied Financial Group's office.

30. At these monthly meetings, Porter brought the bills that needed to be paid and Longo wrote the checks to pay those bills and had Porter sign those checks.

31. During one of their meetings, Longo told Porter that Applied

Financial Group was actively trading her account and would regularly need checks from her to pay for the securities that the firm purchased on her behalf.

32. Longo subsequently told Porter repeatedly that Applied Financial Group's trading activity was generating very high returns in her account.

33. Longo suggested that if Porter signed blank checks and left them with Longo, Porter would not have to return to the office to sign a check each time the firm purchased securities in her account. At Longo's direction, Porter signed boxes of blank checks.

34. In fact, Applied Financial Group did not actively trade Porter's account and did not need Porter to sign blank checks.

(3) Jean Scaglione

35. In addition to Porter's account, Longo also used Jean Scaglione's brokerage account to funnel funds that she misappropriated from the four profit-sharing plans.

36. When Longo began using Scaglione's account, Scaglione was a Florida resident, a widowed octogenarian, and a retired piano teacher.

37. Although Scaglione died in July 2003, Longo continued to transfer misappropriated funds and securities through Scaglione's account until April

2004.

C. Longo's Fraudulent Conduct

(1) Longo Misappropriates Cash and Securities from the Profit-Sharing Plans

38. In May 2000, Longo began placing orders to sell securities in the accounts held by the Baker Audio and Global Imports profit-sharing plans. Several years later, Longo began placing sell orders in the accounts held by the Oral & Maxillofacial Surgery Associates and Gynecology & Obstetrics of DeKalb profit-sharing plans.

39. Longo transferred the cash from the sale of those securities to the accounts of Scaglione and/or Porter by forging the signatures of the trustees for the profit-sharing plans on checks drawn on the profit-sharing plans' brokerage accounts.

40. Longo made the majority of those checks payable to "Charles Schwab" and identified the transferee account by writing either Porter's or Scaglione's account number in the section designated "For" in the lower left corner of the check.

41. When Schwab received these checks, it transferred the amount of the check from the account on which the check was drawn to the account designated in the "For" section of the check.

42. Longo varied her scheme slightly on several occasions by forging letters of authorization, which directed Schwab to transfer securities directly from the profit-sharing plans' accounts to the account of either Porter or Scaglione.

43. After these transfers were executed, the securities were converted to cash.

44. When assets were transferred to Scaglione's account, Longo forged Scaglione's signature on checks drawn on Scaglione's account, and made those checks payable to Longo, Longo's mother, or one of Longo's creditors.

45. Longo transferred at least \$2.5 million through Scaglione's account, including over \$515,000 in the nine months after Scaglione died.

46. In order to access the money transferred into Porter's account, Longo made the blank checks that Porter had executed at Longo's behest payable to Longo, her mother, or one of Longo's creditors.

47. Longo used over 100 of these blank Porter checks without Porter's knowledge or permission.

48. Through this scheme, Longo diverted at least \$5.4 million from the four profit-sharing plans between May 1, 2000, and April 30, 2004,

including at least \$3.17 million from Baker Audio, at least \$1.76 million from Global Imports, at least \$325,000 from Oral & Maxillofacial, and at least \$196,000 from Gynecological and Obstetrics.

(2) Longo Alters Documents To Avoid Detection

49. Longo concealed her fraud in part by altering the data that Schwab sent Applied Financial Group, which reflected transactions in the Schwab accounts managed by Applied Financial Group.

50. As part of her responsibilities, Longo reviewed data that Schwab sent electronically each day, which showed the previous day's transactions in the Schwab accounts that Applied Financial Group managed. Longo compared Schwab's information with the transactions listed on Applied Financial Group's trade blotter.

51. Longo's responsibilities included reconciling any discrepancies by correcting either the trade blotter or Schwab's records. She was to then download the corrected information from Schwab into Applied Financial Group's recordkeeping system.

52. In performing these reconciliations, Longo deleted the fraudulent transactions from Schwab's electronic data and downloaded the sanitized data into the database that Applied Financial Group used to generate

statements for its clients.

53. Applied Financial Group did not discover Longo's conduct because no one else at the firm reconciled the information received from Schwab with Applied Financial Group's trade blotter.

54. Longo also avoided detection because Applied Financial Group's clients either did not receive or did not rely on the monthly statements from Schwab.

55. For example, one of the trustees for Baker Audio's plan relied on the account statements from Applied Financial Group to monitor the plan's performance because he found them easier to comprehend than Schwab's statements.

56. Moreover, after Longo's scheme was uncovered, this trustee realized that Baker Audio had not received account statements from Schwab since early 2000.

57. Global Imports' trustee also relied solely on the statements generated by Applied Financial Concepts because he never received monthly Schwab statements. Those statements were returned to Schwab unopened.

58. The monthly statements from Applied Financial Group for the Baker Audio and Global Imports accounts did not disclose Longo's fraud because

they were based on the sanitized information that Longo downloaded from Schwab into Applied Financial Group's database.

59. When the President of Baker Audio requested an update of the performance of his company's profit sharing plan in March 2004, Longo sent him an e-mail stating that the account had earned 3.03% in 2000, 4.86% in 2001, -0.15% in 2002 and 25.76% in 2003.

60. In truth, that account had not earned those returns because Longo had misappropriated a significant portion of the assets therein.

61. In April 2004, the trustee of Oral & Maxillofacial detected the two fraudulent transactions that occurred in his company's profit-sharing plan in January 2004.

62. In response to the trustee's inquiries, Longo attempted to reverse the transactions, and Schwab, detecting the reversals, began an investigation that led to the discovery of Longo's misconduct.

63. There was only one transaction by which Longo misappropriated funds from the Gynecological & Obstetrics' account. Longo's scheme was discovered before Schwab mailed the account statement reflecting the one transaction.

64. Scaglione and Porter did not detect the unusual activity in their

accounts because, between May 2000 and April 2004, Schwab sent their account statements to Applied Financial Group rather than their homes. While Scaglione and Porter received statements from Applied Financial Group, those statements omitted Longo's fraudulent transactions.

65. While Porter may have received some account statements from Schwab, Longo dissuaded her from reviewing those documents by yelling at her and threatening to sever Applied Financial Group's relationship with her whenever Porter came to their meetings with mail that had been opened.

66. Porter also relied on Longo's repeated assurances that trading in her account was producing very large returns.

CLAIMS FOR RELIEF

COUNT I-FRAUD

Violations of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)]

67. Paragraphs 1 through 66 are hereby realleged and are incorporated herein by reference.

68. Longo, in connection with the offer or sale of securities described herein, by the use of the means and instruments of interstate commerce and by use of the mails, directly and indirectly:

- (a) employed devices, schemes, or artifices to defraud;

(b) obtained money or property by means of untrue statements of material facts or omissions of 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 transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon the purchasers of securities, all as more particularly described in the paragraphs above.

69. Longo knowingly, intentionally, and/or with severe recklessness engaged in the aforementioned devices, schemes and artifices to defraud. In engaging in such conduct, Longo acted with scienter, that is, with an intent to deceive, manipulate or defraud or with a severely reckless disregard for the truth.

70. By reason of the foregoing, defendant Longo, directly and indirectly, violated and unless restrained and enjoined, will continue to violate Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

COUNT II--FRAUD

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]

71. Paragraphs 1 through 66 are hereby realleged and are incorporated herein by reference.

72. Longo, in connection with the purchase or sale of securities described herein, by the use of the means and instrumentalities of interstate commerce and by use of the mails, directly and indirectly:

- (a) employed devices, schemes, and artifices to defraud;
- (b) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and
- (c) engaged in acts, practices, and courses of business which would and did operate as a fraud and deceit upon the purchasers of such securities, all as more particularly described in the paragraphs above.

73. Longo knowingly, intentionally, and/or with severe recklessness engaged in the aforementioned devices, schemes and artifices to defraud, made untrue statements of material facts and omitted to state material facts, and engaged in fraudulent acts, practices and courses of business. In engaging in such conduct, Longo acted with scienter, that is, with an intent to deceive, manipulate or defraud or with a severely reckless disregard for the truth.

74. By reason of the foregoing, defendant Longo, directly and indirectly, violated and unless restrained and enjoined, will continue to violate 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].

COUNT III-AIDING AND ABETTING FRAUD

Aiding and Abetting Applied Financial Group's Violations of Section 206(1) of the Advisers Act [15 U.S.C. § 80b-6(1)]

75. Paragraphs 1 through 66 are hereby realleged and are incorporated herein by reference.

76. Acting through Longo, Applied Financial Group, an investment adviser, by use of the mails and the means and instrumentalities of interstate commerce, directly or indirectly, employed devices, schemes, and artifices to defraud one or more advisory clients and/or prospective clients, all as more particularly described above.

77. Acting through Longo, Applied Financial Group knowingly, intentionally, and/or recklessly engaged in the aforementioned devices, schemes and artifices to defraud. In engaging in such conduct, Applied Financial Group acted with scienter, that is, with an intent to deceive, manipulate or defraud or with a severely reckless disregard for the truth.

78. Defendant Longo knowingly, intentionally, and/or recklessly provided substantial assistance to Applied Financial Group's violations of Section 206(1) of the Advisers Act. While providing such assistance, defendant Longo acted with scienter, that is, with intent to deceive, manipulate or defraud or with a severely reckless disregard of the truth.

79. By reason of the foregoing, defendant Longo, directly and indirectly, aided and abetted, and unless enjoined will continue to aid and abet, violations of Section 206(1) of the Advisers Act [15 U.S.C. § 80b-6(1)]

COUNT IV- AIDING AND ABETTING FRAUD

Aiding and Abetting Applied Financial Group's Violations of Section 206(2) of the Advisers Act [15 U.S.C. § 80b-6(2)]

80. Paragraphs 1 through 66 are hereby realleged and are incorporated herein by reference.

81. Acting through Longo, Applied Financial Group, an investment adviser, by the use of the mails and the means and instrumentalities of interstate commerce, directly and indirectly, engaged in transactions, practices and courses of business which would and did operate as a fraud and deceit on one or more advisory clients and/or prospective clients.

82. Defendant Longo knowingly, intentionally, and/or recklessly provided substantial assistance to Applied Financial Group's violations of Section

206(2) of the Advisers Act. While providing such assistance, defendant Longo acted with scienter, that is, with intent to deceive, manipulate or defraud or with a severely reckless disregard of the truth.

83. By reason of the foregoing, defendant Longo, directly and indirectly, aided and abetted, and unless enjoined will continue to aid and abet, violations of Section 206(2) of the Advisers Act [15 U.S.C. § 80b-6(2)].

PRAYER FOR RELIEF

WHEREFORE, Plaintiff Commission, respectfully prays that the Court:

I.

Make findings of fact and conclusions of law in accordance with Rule 52 of the Federal Rules of Civil Procedure.

II.

Issue a permanent injunction enjoining Longo and her agents, servants, employees, attorneys, and all persons in active concert or participation with them who receive actual notice of the order by personal service or otherwise, and each of them:

- (a) from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)];

- (b) from violating 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]; and
- (c) from aiding and abetting violations of Sections 206(1) and (2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and (2)]

III.

Issue an Order requiring Longo to disgorge any ill-gotten gains received as a result of the conduct described herein, together with prejudgment interest.

IV.

Issue an Order requiring Longo, pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)] and Section 209 of the Advisers Act, [15 U.S.C. §§ 80b-9] to pay civil monetary penalties.

V.


Retain jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that may have been entered or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court.

VI.

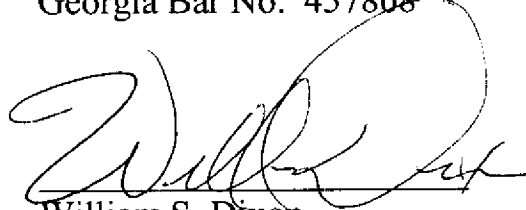
Grant such other and further relief as may be necessary and appropriate.

This 20th day of January, 2005

RESPECTFULLY SUBMITTED,



M. Graham Loomis
SENIOR TRIAL COUNSEL
Georgia Bar No. 457868



William S. Dixon
STAFF ATTORNEY
Georgia Bar No. 223420

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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF GEORGIA

ATLANTA DIVISION

Securities and Exchange Commission,

SUMMONS IN A CIVIL CASE

Plaintiff,

V.

CASE NUMBER:

Susana P. Longo,

1:05-CV-0164

Defendant.

**TO: Susana P. Longo
3100 River Edge Exchange
No. 606
Norcross, Georgia 30092**

YOU ARE HEREBY SUMMONED and required to serve upon PLAINTIFF'S ATTORNEY (name and address)

**M. Graham Loomis, Esq./William Dixon, Esq.
Securities and Exchange Commission
3475 Lenox Road, N.E., Suite 1000
Atlanta, GA 30326-1232**

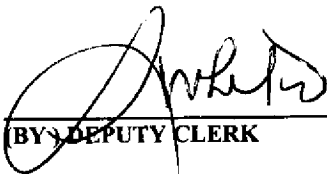
an answer to the complaint which is herewith served upon you, within 20 days after service of this summons upon you, exclusive of the day of service. If you fail to do so, judgment by default will be taken against you for the relief demanded in the complaint. You must also file your answer with the Clerk of this Court within a reasonable period of time after service.

JAN 20 2005

JAN 20 2005

CLERK

DATE


BY DEPUTY CLERK