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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION **Plaintiff,** **- against -** **NORTHSHORE ASSET MANAGEMENT, LLC, SALDUTTI CAPITAL MANAGEMENT, L.P., KEVIN KELLEY, ROBERT WILDEMAN, GLENN SHERMAN, DOUGLAS BALLEW, and FRANCIS J. SALDUTTI** **Defendants.**	:	**05 Civ. 2192 (WHP)**

SECOND AMENDED COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission"), for its Second Amended Complaint against defendants Northshore Asset Management, LLC ("Northshore"), Saldutti Capital Management, L.P. ("SCM"), Robert Wildeman ("Wildeman"), Kevin Kelley ("Kelley"), Glenn Sherman ("Sherman"),[1] Douglas Ballew ("Ballew"), and Francis J. Saldutti ("Saldutti") (collectively, "Defendants"), alleges as follows:

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[1] In August 2007, Sherman passed away, and on or about March 21, 2008, a suggestion of death upon the record was filed.

SUMMARY

1. This action primarily concerns Defendants' schemes to defraud Ardent Research Partners L.P. ("Ardent Domestic") and Ardent Research Partners Ltd. ("Ardent Offshore") (collectively, the "Ardent Funds"), two hedge funds that defendant Saldutti founded in the 1990's, and to defraud investors in those funds.

2. From the inception of the Ardent Funds through the time period covered by this complaint, defendant SCM was the general partner and investment adviser of Ardent Domestic, and the investment adviser of Ardent Offshore. Defendant Saldutti was SCM's general partner until in or about April 2003, and Saldutti was the Ardent Funds' investment adviser throughout the time period covered by this complaint. In or about April 2003, Northshore, whose owners included defendants Kelley, Sherman, Wildeman and Ballew, purchased from Saldutti his interest in SCM (as well as all other outstanding interests in SCM), and hired Saldutti to remain thereafter as the Ardent Funds' sole "portfolio manager." The fraudulent schemes that the Commission alleges in this complaint occurred from in or about October 2002 through at least January 2005.

3. Defendants Kelley, Sherman, and Wildeman engaged in a fraudulent scheme to divert and misappropriate millions of dollars of Ardent Funds cash, to enrich themselves at the expense of the Ardent Funds and the Ardent Funds investors. Beginning in or about October 2002 and continuing periodically through August 2004, defendant Saldutti, acting as the Ardent Funds' investment adviser, transferred or caused to be transferred a total of approximately $65 million in cash from the Ardent Funds to Northshore and/or Northshore-controlled entities and accounts, purportedly for the purpose of making, or causing others to make, investments for the

Ardent Funds. Saldutti's cash transfers to Northshore included investments in a Northshore-controlled entity called the "Lasalle Leveraged Fund" (the "Lasalle Fund"), large loans to Northshore, and additional large unspecified cash transfers to Northshore, purportedly for the purpose of "cash management" or other investment by Northshore. Northshore reported certain, but not all, of the unspecified cash transfers on monthly statements bearing the title, "NSAM Cash Management Program" ("CMP"), although no such legal entity actually existed. Defendants Kelley, Sherman, and Wildeman essentially treated all of the $65 million transferred cash as their own and, thus, misappropriated millions of dollars for themselves, both directly and as investments in business ventures in which they have and/or had personal stakes. Consequently, the Ardent Funds' portfolio of assets became illiquid and unable to meet Ardent Funds investors' redemption requests. As a result of defendants Kelley's, Sherman's and Wildeman's fraud and self-dealing, the Ardent Funds and the Ardent Funds investors have suffered losses totaling approximately $36 million.

4. Defendant Ballew was Northshore's Chief Financial Officer ("CFO") during the time period at issue and also owned 10% of Northshore. Ballew participated in, and furthered, Kelley's, Sherman's and Wildeman's fraudulent scheme by knowingly or recklessly transmitting to the Ardent Funds fraudulent monthly CMP statements (the "CMP Statements"). The CMP Statements created the false appearance that the CMP was an actual legal entity, and they falsely purported to state the value of the Ardent Funds' cash and purported investment returns on that cash as of the end of each month. In reality, however, the CMP Statements were fictitious, both because the CMP was not an actual legal entity, and because defendants Kelley, Sherman, Wildeman and Ballew used all, or most, of the Ardent Funds cash reported on the CMP

Statements (totaling $18.45 million) for their own benefit, either directly or through Northshore and its related entities.

5. Beginning in April 2003, and continuing through January 2005, defendant Saldutti engaged in his own pattern of fraudulent, misleading and deceptive conduct toward the Ardent Funds and the Ardent Funds investors, designed to hide from them (or, at the least, to obscure) Saldutti's sale of SCM to Northshore, his complete delegation to Northshore of control, including investment control, over much of the $65 million that he transferred to Northshore, his loans of Ardent Funds cash to Northshore, and Saldutti's extreme conflicts of interest arising from the combination of his $65 million in cash transfers to Northshore and his lucrative financial relationship to, and arrangements with, Northshore. Saldutti's pattern of deceptive conduct included Saldutti's knowing or reckless failure to disclose to the Ardent Funds and their individual investors (or, for certain of the following categories, at least a large number of the individual investors): (a) Northshore's April 2003 purchase of SCM from Saldutti, and Saldutti's related lucrative financial arrangements with Northshore; (b) Saldutti's complete delegation to Northshore of cash management responsibility for much of the transferred $65 million, and his transfer of that cash outside the custody of the Ardent Funds' prime broker, Bank of America, and into Northshore-controlled accounts; (c) Saldutti's severe conflicts of interest arising from his lucrative personal financial arrangements with Northshore and his simultaneous transfers of $65 million in Ardent Funds cash to Northshore; (d) Saldutti's serious difficulties regarding Northshore and the Ardent Funds that became apparent to Saldutti at least as early as the fall and winter of 2004; (e) Northshore CEO Kevin Kelley's early December 2004 arrest for investment adviser fraud; and (f) Northshore's firing of COO Robert Wildeman in

December 2004. In addition, Saldutti knowingly or recklessly made, or caused to be made, a number of false and/or misleading statements to several Ardent Funds investors regarding (a) SCM's and Saldutti's relationship to Northshore; (b) Saldutti's post-April 2003 relationship to SCM; and (c) the nature of the Ardent Funds' $65 million in cash transfers to Northshore and Northshore-controlled entities.

6. Upon learning of certain of these matters, in February 2005, the Commission commenced this emergency action with its original complaint. On February 25 and March 10, 2005, the Court in this case entered Orders preliminarily enjoining all Defendants, except Saldutti and Ballew (who were not then defendants), from violating the federal securities laws, freezing their assets (subject to certain limited exceptions), and appointing a receiver for defendants Northshore, SCM, and the Ardent Funds. On October 28, 2005, the Commission filed its First Amended Complaint, adding as defendants Douglas Ballew and Francis Saldutti.

VIOLATIONS

7. By virtue of the conduct alleged herein:

a. All Defendants directly or indirectly, singly or in concert, have engaged in acts, practices and courses of business that constitute violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5;

b. In the alternative, pursuant to Section 20(e) of the Exchange Act, defendants Kelley, Wildeman, and Sherman aided and abetted Northshore's and SCM's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder;

c. In the alternative, pursuant to Section 20(e) of the Exchange Act, defendant Ballew aided and abetted Northshore's, SCM's, Kelley's, Wildeman's, and Sherman's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder;

d. In the alternative, pursuant to Section 20(a) of the Exchange Act, as controlling persons of defendant Northshore, defendants Kelley, Wildeman, and Sherman are liable for defendant Northshore's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder;

e. Defendants Northshore and SCM, aided and abetted by defendants Kelley, Wildeman, Sherman, and Ballew, directly or indirectly, singly or in concert, have engaged in acts, practices and courses of business, that constitute violations of Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 (the "Advisers Act"), 15 U.S.C. §§ 80b-6(1) and 80b-6(2);

f. Defendant Saldutti has engaged in acts, practices and courses of business, that constitute violations of Sections 206(1) and 206(2) of the Advisers Act. In the alternative, defendant Saldutti has aided and abetted defendants Northshore's and SCM's violations of the Advisers Act; and

g. Defendants Sherman and Saldutti, directly or indirectly, have engaged in acts, practices, schemes, and courses of business, that constitute violations of Section 17(a) of the Securities Act of 1933 (the "Securities Act"), 15

U.S.C. § 77q(a).

NATURE OF THE PROCEEDINGS AND RELIEF SOUGHT

8. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act, 15 U.S.C. § 77t(b), Section 21(d)(1) of the Exchange Act, 15 U.S.C. § 78u(d)(1), and Section 209 of the Advisers Act, 15 U.S.C. § 80b-9, seeking to restrain and enjoin permanently the Defendants from engaging in the acts, practices and courses of business alleged herein.

9. The Commission seeks a judgment (i) permanently enjoining Defendants from committing future violations of the provisions of the federal securities laws that the Commission alleges against them; (ii) ordering Defendants to disgorge their ill-gotten gains with prejudgment interest thereon; and (iii) ordering Defendants to pay civil money 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). The Commission also seeks a judgment ordering Defendants to pay civil money penalties pursuant to Section 209 of the Advisers Act, 15 U.S.C. § 80b-9.

JURISDICTION AND VENUE

10. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), Sections 21(e) and 27 of the Exchange Act, 15 U.S.C. §§ 78u(e) and 78aa, and Section 214 of the Advisers Act, 15 U.S.C. § 80b-14.

11. Venue is proper in the Southern District of New York pursuant to 28 U.S.C. § 1391. The Defendants, directly and indirectly, have made use of the means and instrumentalities of interstate commerce, or of the mails, in connection with the transactions, acts, practices and courses of business alleged herein. A substantial part of the events

comprising Defendants' fraudulent scheme that gives rise to the Commission's claims occurred in the Southern District of New York, including the facts that Ardent Domestic is a New York limited liability partnership that maintains offices in this District, Ardent Domestic received investor funds in this District, and certain of the Defendants misappropriated investor funds for personal use from bank accounts serviced by banks in this district.

THE DEFENDANTS

12. **Northshore** is a Delaware limited liability company based in Chicago. From its inception, Northshore's largest shareholders were Kelley, Wildeman, and Sherman. As of approximately April 2003, Northshore's principal shareholders and owners, and their respective ownership interests in Northshore, were Kelley (25%), Sherman (25%), Wildeman (25%), Ballew (10%), Kenneth Slepicka (8%), and Saldutti (5%).

13. **SCM** is a New York limited partnership located in New York, New York. Saldutti founded SCM in 1992 and was its General Partner until April 2003. In April 2003, Northshore purchased all of the partnership interests in SCM, including Saldutti's general partnership interest. SCM has been the General Partner of, and investment adviser to, Ardent Domestic since 1992. SCM has acted as Ardent Offshore's investment adviser since July 1998.

14. **Kelley**, age 52, resides in Greenwich, Connecticut. Kelley is a founder of Northshore and during the time period covered by this complaint was its Chief Executive Officer.

15. **Wildeman**, age 44, resides in Chicago, Illinois. Wildeman is a founder of Northshore, and during the time period covered by this complaint, Wildeman was Northshore's Chief Operating Officer.

16. **Sherman** passed away at the age of 41 in 2007. He previously resided at all relevant times in Chicago, Illinois. Sherman was a founder of Northshore, and during the time period covered by this complaint, Sherman was Northshore's President. On or about March 21, 2008, a suggestion of death upon the record for Sherman was filed.

17. **Ballew**, age 43, resides in Naperville, Illinois. Ballew was Northshore's CFO starting in or about late 2002 through in or about January 2005. Ballew is a certified public accountant.

18. **Saldutti,** age 59, resides in Pound Ridge, New York. Saldutti founded Ardent Domestic in 1992 and Ardent Offshore in 1997. From 1992 to April 2003, Saldutti was the managing General Partner of SCM, Ardent Domestic's general partner and the Ardent Funds' investment adviser. In April 2003, Saldutti sold his general partnership interest in SCM to Northshore. At or about the same time as that sale, Saldutti entered into an employment agreement with Northshore, whereby Saldutti became a "Senior Managing Director" at Northshore. As "Senior Managing Director," Saldutti continued as sole "portfolio manager" of, and investment adviser to, the Ardent Funds.

OTHER SIGNIFICANT ENTITIES

19. **Ardent Domestic** is a hedge fund structured as a New York limited partnership that Saldutti organized in February 1992. According to its Private Offering Memorandum, Ardent Domestic's principal place of business is 153 East 53rd Street, New York, New York, and the objective of Ardent Domestic is to achieve "superior capital appreciation over the long-term through the purchase, sale and short sale of public market securities in the technology industry." On March 23, 1992, Ardent Domestic filed an exemption from registration on Form D with the

Commission. Ardent Domestic maintains a prime brokerage account at Banc of America Securities. As of January 31, 2005, Ardent Domestic had approximately 55 named investors and approximately $38 million in assets under management (not accounting for then-unreported losses caused by Defendants' fraudulent conduct).

20. **Ardent Offshore** is also a hedge fund structured as an open-ended limited liability investment company incorporated in September 1997 under the International Business Companies Act of 1989 of the Commonwealth of the Bahamas. Ardent Offshore maintains offices in Nassau, Bahamas. SCM has acted as Ardent Offshore's investment adviser since July 1998. Ardent Offshore maintains a prime brokerage account at Banc of America Securities. As of January 31, 2005, Ardent Offshore had at least five investors and reported approximately $20 million in assets under management (not accounting for then-unreported losses caused by Defendants' fraudulent conduct).

21. **Banc of America Securities ("BOA")** is the custodian and the prime broker of the Ardent Funds. A BOA account representative located in New York serviced the Ardent Funds' prime brokerage accounts.

FACTS

A. The Ardent Funds

22. Defendants Saldutti and SCM disseminated to prospective Ardent Funds investors a "Confidential Private Offering Memorandum" for Ardent Domestic (the "Ardent Domestic POM") and an "Offering Memorandum" for Ardent Offshore (the "Ardent Offshore POM").

23. The Domestic POM states that it is submitted to prospective investors "solely in connection with [the prospective investor's] consideration of an investment in limited

partnership interests in [Ardent Domestic], a proposed New York limited partnership." The Domestic POM further represents that Ardent Domestic was formed "for the purpose of investing and trading its assets in accordance with the proposed investment objective and restrictions set forth in [the Domestic POM]." The Domestic POM further represents that Ardent Domestic's investment objective is to achieve "superior capital appreciation over the long-term through the purchase, sale and short sale of public market securities in the technology industry." In addition, the Domestic POM provides that Ardent Domestic's investment portfolio will consist primarily of common stocks and cash equivalents.

24. The Domestic POM also represents that the "affairs of [Ardent Domestic] will be managed by [SCM], its General Partner. The managing general partner of [SCM] is Francis J. Saldutti. All investment decisions concerning [Ardent Domestic's] assets and funds will be made by Mr. Saldutti," and "Mr. Saldutti will be responsible for all investment decisions of [Ardent Domestic]."

25. The Offshore POM likewise states that the principal objective of Ardent Offshore is "superior capital appreciation over the long-term with no more than moderate risk."

26. The Offshore POM also states that: (i) Ardent Offshore's portfolio will consist primarily of publicly traded technology oriented common stocks and cash equivalents; (ii) Ardent Offshore's "Trading Advisor" is SCM, whose "General Partner" is "Francis Saldutti"; (iii) Saldutti will make "all investment decisions concerning [Ardent Offshore's] assets and funds"; and (iv) notice will be given to each Ardent Offshore shareholder within 15 business days if there is "any change in the delegation of operational responsibilities by [Ardent Offshore]" or if there is "any material change in the trading policies of [Ardent Offshore]."

27. The Offshore POM also states that the "success of [Ardent Offshore] and the investment strategy of each class depend primarily upon [SCM]. . . . Furthermore, if [SCM] should cease to participate in [Ardent Domestic's] business, [Ardent Domestic's] ability to select, attract and manage its portfolio could be severely impaired."

28. The Offshore POM also states that

> Custody of substantially all of [Ardent Offshore's] assets will be with one or more independent qualified brokerage firms, banks or other financial institutions ... selected by [SCM]. Presently, [Ardent Offshore's] Broker and Custodian is Banc of America Securities LLC, San Francisco, Calif. The selection of [Ardent Offshore's] Clearing Broker may be changed from time to time by [SCM]. The Custodian(s) hold all the securities, money and other assets of [Ardent Offshore], delivered to it in a segregated account established for such purpose. The Custodian is authorized to deal with [Ardent Offshore's] assets on instructions from [SCM] but may not transfer any assets to [SCM] without approval for such transfer from the Company's Board.

29. Under the heading "Brokerage and Custody," the Ardent Domestic POM states that SCM has authority to determine the "broker/dealer to be used for each securities transaction for [Ardent Domestic]." The POM further states that Ardent Domestic "initially will have an account at Furman Selz Inc. . . . through which [Ardent Domestic] may execute trades, borrow funds in connection with trades, clear and settle its securities transactions, and maintain custody of its securities." The Ardent Domestic POM further states that "[SCM] reserves the right, in its sole discretion, to change the brokerage and custodial arrangements described above, upon notice to the limited partners." Id.

30. After the 2001 bursting of the technology securities market bubble, the Ardent Funds' investment returns were flat. Saldutti continued his traditional (and disclosed) practice of holding a large percentage of the funds' assets in cash or cash-equivalent investments at BOA.

31. Ardent Offshore investors could redeem their investments, in whole or in part, upon thirty days written notice, "as of the last business day of any month." Upon forty-five days written notice, Ardent Domestic investors could withdraw all or part of their investment, "as of the last day of any fiscal year." Also, upon "30 days written notice," any Ardent Domestic limited partner could, once a year, "make a partial withdrawal" of up to 20% of their investment as of the end of each quarter ("March 31, June 30, or September 30").

32. The Domestic POM states under the heading "Conflicts of Interest," in part, that the "interests of the investors may be inconsistent in some respects with the interest of [SCM]. However, the fiduciary obligations of [SCM] require that it exercise good faith and integrity in resolving any conflicts of interest."

33. The Offshore POM under the heading "Conflicts of Interest" identifies certain Ardent Offshore conflicts of interest (other than those alleged in this complaint) and likewise further states that "[e]very effort will be made to resolve any conflicts of interest, which may arise, in good faith and in a manner that is fair to all such interests."

B. Northshore's Purchase of SCM and Saldutti's Employment by Northshore

34. At all relevant times, Northshore was a start-up company with little or no track record concerning its financial position or business plan -- the establishment of a family of hedge funds. Saldutti's limited knowledge of Northshore's finances was based entirely upon oral representations to him by Northshore's principals. In fact, virtually all of Northshore's assets during the relevant time period were to consist of Ardent Funds cash that Saldutti transferred to Northshore.

35. In or about April 2003, pursuant to a document titled “Purchase Agreement” (the “Purchase Agreement”), Saldutti sold his general partnership interest in SCM to Northshore. Under the terms of the Purchase Agreement, Saldutti was to receive from Northshore on May 24, 2003, “four million dollars ($4,000,000) in cash,” and an additional $500,000 in cash beginning fifteen months later and “on each three-month anniversary thereafter until the Purchase Price [of $12 million] has been paid in full.”

36. On or about May 21, 2003, Saldutti received the initial $4 million cash payment from Northshore. On or about April 14 and September 23, 2004, Saldutti received two additional $500,000 payments from Northshore.

37. At or about the time of the Purchase Agreement, Saldutti also entered into an employment agreement with Northshore (the “Employment Agreement”), whereby Saldutti became a “Senior Managing Director” at Northshore. Under the terms of the Employment Agreement, and in addition to the cash that Saldutti was to receive from Northshore under the Purchase Agreement, Saldutti was to receive from Northshore a “Base Compensation” of $450,000 per year for five years “in roughly equal installments” not “less than monthly.” During his first two years of employment, Saldutti’s base Northshore compensation would be "adjusted to reflect" a consumer price index. Thereafter, Saldutti's compensation was subject to further increase “at the sole discretion of Northshore.”

38. Under the Employment Agreement, Saldutti was to receive yearly “Incentive Compensation” of “the greater of” either (a) 25% of certain Ardent Funds “profit allocation” and “performance” fees (plus a percentage of additional fees that Northshore might earn on other

Northshore-managed funds for which Saldutti might become a "co-portfolio manager"); or (b) $350,000 per year.

39. Under the Employment Agreement, Saldutti was to receive "Incentive Compensation" equal to 2.5% of the "Profits of [Northshore]."

40. Under the Employment Agreement, Saldutti was entitled to "participate in" any Northshore "retirement" plan.

41. Under the Employment Agreement, Saldutti was to continue to "serve as portfolio manager to," among others, SCM, Ardent Domestic and Ardent Offshore.

42. Pursuant to the Employment Agreement, from in or about May 2003 through January 2005, Saldutti received $810,000 in compensation from Northshore (in addition to the $5 million he received pursuant to the Purchase Agreement).

43. As part of his April 2003 transactions with Northshore, Saldutti also received a 5% equity interest in Northshore.

44. Both prior and subsequent to the April 2003 Northshore purchase of SCM, with the exception of certain Ardent Funds administrative functions that were transferred to Northshore at or about the time of Northshore's purchase of SCM (and certain purported "cash management" functions that Saldutti delegated to Wildeman, described below), Saldutti and employees under his supervision managed and controlled the day-to-day activities of the Ardent Funds, and Saldutti had exclusive signature authority regarding the Ardent Funds' accounts at BOA.

45. Saldutti understood that his responsibility to make all investment decisions for the Ardent Funds, including decisions regarding how to invest their cash reserves, was unchanged as a result of the his sale of SCM and employment by Northshore.

C. Omissions and Misrepresentations Concerning Northshore

46. Prior to 2005, neither the Ardent Funds nor the Ardent Funds investors received any written notice or other systematic or formal disclosure of Northshore's April 2003 purchase of SCM (or of the terms of the Purchase Agreement), of Saldutti's Employment Agreement with Northshore (or of the terms of the Employment Agreement), or of Saldutti's equity interest in Northshore. None of the Defendants or their employees or agents made any such disclosure to the Ardent Funds or the Ardent Funds investors.

47. Although Saldutti may have disclosed orally certain terms of the Purchase Agreement and/or Employment Agreement to a limited and select number of Ardent Funds investors, he either knowingly or recklessly disclosed nothing concerning those agreements, or their terms, to other Ardent Funds investors, who otherwise received no disclosure or notice regarding those agreements. Furthermore, Saldutti either knowingly or recklessly failed to provide adequate notice to both Ardent Domestic and Ardent Offshore regarding the existence and terms of the Purchase Agreement and the Employment Agreement.

48. Saldutti also knowingly or recklessly made affirmative material misrepresentations and/or misleading statements to at least certain Ardent Funds investors regarding his relationship to Northshore, SCM, and the Ardent Funds (and those entities' relationships with each other), including at least the following:

a. On or about July 11, 2003, Saldutti falsely and misleadingly orally informed at least one Ardent Offshore investor that Ardent Offshore and Northshore were engaged in a "joint venture," while knowingly or recklessly failing to disclose to the same investor that Northshore had purchased SCM, and otherwise knowingly or recklessly failing to disclose Saldutti's financial relationships with Northshore, including certain of the cash transfers that Saldutti already had made to Northshore;

b. in a newsletter that Saldutti drafted and caused to be disseminated to Ardent Funds Investors in about April 2004, a year after Northshore's purchase of SCM, Saldutti misleadingly referred to Northshore in passing as Ardent's "new partner" (while at the same time omitting any other description of Northshore or its purchase of SCM); and

c. in December 2004, Saldutti signed Ardent Domestic subscription agreements for two new Ardent Domestic investors as "General Partner" of "Saldutti Capital Management, L.P." (even though Saldutti had not been SCM's "General Partner" for over a year and a half), and Saldutti furnished at least one of those investors the Domestic POM, which makes the same and related (and, as of that date, false) representations.

D. <u>Saldutti's Transfers of Ardent Funds Cash to Northshore</u>

49. Beginning in or about October 2002 and continuing throughout at least 2004, Saldutti made, or caused to be made, transfers totaling approximately $65 million of the Ardent Funds' cash to Northshore and the Northshore-controlled Lasalle Fund. The chart below

summarizes the dates, amounts, and Northshore/Ardent Funds documentation (and lack thereof) for each of those transfers. No executed agreements or other executed investment documentation on behalf of the Ardent Funds exist or existed for the transfers listed below. The cash transfers "reported on the CMP Statements" were transfers that Saldutti made to a Northshore bank account or accounts controlled by Wildeman and/or Northshore, for "cash management" by Wildeman. The last three cash transfers were unsecured loans by the Ardent Funds to Northshore, without executed documentation. In the alternative, the last three transfers, or certain of them, were unspecified cash transfers from the Ardent Funds to Northshore, without any documentation concerning the Ardent Funds' return consideration for the transfers.

Transfer Date	Amount	Purported Transfer
10/1/02	$6.5 million	LaSalle Fund
5/6/03	$12.3 million	Reported on CMP Statements
7/8/03	$6.15 million	Reported on CMP Statements
9/23/03	$7 million	LaSalle Fund
11/13/03	$21 million	Loan or transfer without consideration
6/7/04	$2.5 million	Loan or transfer without consideration
8/27/04	$10 million	Loan or transfer without consideration

50. Saldutti knowingly or recklessly failed to disclose to the Ardent Funds and their investors a number of material facts concerning the $65 million in cash transfers that Saldutti made to Northshore (from which Northshore misappropriated $36 million). Those undisclosed material facts included (a) Saldutti's complete delegation of investment responsibility to Northshore regarding much of the Ardent Funds cash that he transferred to Northshore, in direct

contravention of the Ardent Funds' written promise to their investors that "all investment decisions concerning [Ardent Funds] assets and funds will be made by Mr. Saldutti"; (b) Saldutti's transfer of the $65 million out of the custody of BOA to Northshore-controlled accounts, including much of the Ardent Funds' cash reserves, which also was in contravention of the Ardent Funds' written promises to their investors; (c) Saldutti's ignorance of the manner in which Northshore maintained and invested most of the transferred cash; and (d) Saldutti's severe conflicts of interest arising from the combination of those cash transfers and his simultaneous personal financial relationship to Northshore (i.e., pursuant to the Employment Agreement and the Purchase Agreement, and his 5% equity interest in Northshore).

51. Further, with regard to all of the transfers (other than the LaSalle Fund transfers), Saldutti knowingly or recklessly failed to disclose to the Ardent Funds and their investors (1) his failure to execute documentation or secure any written terms or protection for those transfers of cash to Northshore; (2) his failure to investigate, consequent lack of knowledge, and the risks to the Ardent Funds arising from his lack of knowledge, regarding the manner in which Northshore was investing those transferred funds; (3) Northshore's intention to use the proceeds of the August 2004 $10 million transfer to benefit itself, of which Saldutti was aware; and (4) Northshore's failure to timely repay the transferred cash to the Ardent Funds.

E. Kelley's, Sherman's and Wildeman's Self-Dealing and Diversion of Ardent Funds Cash

52. From the time of the first Ardent Funds cash transfer to the LaSalle Fund in October 2002 through the present, the vast majority of Northshore's and its related entities' assets have consisted of either the Ardent Funds cash that Saldutti transferred to Northshore

and/or self-dealing investments that Northshore, SCM, Kelley, Wildeman and Sherman (the "Northshore Defendants") made using that cash.

53. The Northshore Defendants knowingly or recklessly used Ardent Funds cash that Saldutti transferred to Northshore for the benefit of the Northshore Defendants, Ballew and Saldutti, including as follows: (i) $5 million in payments to Saldutti as part of the purchase price that Northshore paid Saldutti for its purchase of SCM; (ii) $6 million in payments directly to defendants Kelley, Wildeman and Sherman for their personal use; (iii) $10 million to pay Northshore's operating costs (including over $800,000 in salary and other compensation payments to defendant Ballew); and (iv) at least $23 million for investments in various companies, for the personal benefit of defendants Sherman, Wildeman and Kelley.

54. The Northshore Defendants' undisclosed investments of the Ardent Funds' cash in individual companies include:

a. **Ausam Biotechnologies Inc. ("Ausam"):** Through entities that defendants Kelley, Wildeman and Sherman personally controlled, the Northshore Defendants invested a total of at least $3.5 million of Ardent Funds cash in Ausam, a private biotechnology company of which defendant Sherman was a founder and is a major shareholder, and in which defendants Sherman and Wildeman are former directors.

b. **Circle Trust Corporation ("Circle Trust"):** Circle Trust is a state-chartered Connecticut trust company. On or about June 18, 2004, Northshore affiliate NSCT, which defendants Kelley, Wildeman and Sherman controlled, purchased 94% of the outstanding stock of Circle Trust, using in part $2.5 million in cash that the Northshore Defendants diverted from the Ardent Funds. In or about August and September 2004, the Northshore Defendants, through NSCT, diverted an additional approximately $3.9 million of Ardent Funds cash for the benefit of Circle Trust. Finally, the Northshore Defendants used an additional $9 million in Ardent Funds cash to replenish a Circle Trust 401(k) account, from which Northshore previously had withdrawn funds for various uses, including payments related to the Ardent Funds and Northshore.

c. **<u>Startech Environmental Corporation ("Startech")</u>:** The Northshore Defendants invested approximately $3.5 million of the Ardent Funds' cash in Startech, an environmental technology company. Startech is a publicly traded company in which Northshore owns approximately 20% of the outstanding common stock, and whose Board of Directors includes defendant Ballew and Kenneth Slepicka (a Northshore Senior Portfolio manager and Northshore 8% equity owner at the time of the investment).

55. The Ardent Funds and their investors received no notice or other disclosure of the Northshore Defendants' transfers and uses of the Ardent Funds cash described above.

56. The Northshore Defendants either knew of, or recklessly disregarded, the transfers and uses of the Ardent Funds' cash described above, and that the Ardent Funds and their investors received no notice or other disclosure regarding those transfers and uses of the Ardent Funds cash.

57. All of the cash transfers and uses described above were part of the Northshore Defendants' fraudulent scheme to divert cash secretly from the Ardent Funds for the Northshore Defendants' personal benefit. The Northshore Defendants obtained the Ardent Funds cash that they used for their fraudulent scheme from the $65 million in Ardent Funds cash that Saldutti transferred to Northshore.

58. Furthermore, as part of their fraudulent scheme, to the extent any of the Northshore Defendants' undisclosed investments of the Ardent Funds' cash resulted, or would result, in the generation of profits, the Northshore Defendants took, and intended to take, those profits for themselves, at the expense of the Ardent Funds and their investors. Thus, under the Northshore Defendants' fraudulent scheme, any risk of loss lay exclusively with the Ardent Funds and their investors.

F. The Fraudulent Northshore CMP Statements

59. As an integral part of the Northshore Defendants' fraud, beginning in or about June 2003, and continuing monthly through at least January 2005, Northshore provided to the Ardent Funds a Northshore CMP "Capital Account Summary" statement for the Ardent Domestic fund and a separate one for the Ardent Offshore fund, purporting to summarize each fund's "capital account" balance, and "Income on Investment" in the CMP as of the end of each preceding month. Defendants Wildeman and Ballew personally sent, or caused to be sent, those monthly statements (the "CMP Statements") to the Ardent Funds' New York offices by, at the least, facsimile transfer.

60. The Ardent Funds reported the information on the CMP Statements to BOA, and Northshore separately provided the CMP Statements to BOA, which used that information to compile a BOA website "Client Position Summary" detailing the Ardent Funds' holdings. The Ardent Funds "Client Position Summary" was made available to certain Ardent Funds investors, and was available to all Ardent Funds investors upon request.

61. The Ardent Funds also used the information contained in the CMP Statements to calculate overall Ardent Funds performance and to send that performance information to Ardent Funds investors in the form of periodic e-mail reports. The Ardent Funds also reported the information on the CMP Statements to the Ardent Funds' outside auditors for their use in conducting annual audits of the Ardent Funds.

62. Wildeman and Ballew either knew, or recklessly disregarded, that the Ardent Funds used the information on the CMP Statements, at least in part, to report the Ardent Funds' performance and holdings to the Ardent Funds investors.

63. The CMP Statements that Wildeman and Ballew sent to the Ardent Funds were fictitious because no "cash management program" actually existed at Northshore, and because the Northshore Defendants used all, or virtually all, of the Ardent Funds cash reported on the CMP Statements (totaling $18.45 million) for their own personal benefit, for one or more of the purposes described above. Furthermore, as all of the defendants knew, and contrary to the false appearance created by the CMP Statements, the CMP was not an actual legal entity.

64. Defendants Wildeman and Ballew either knew or recklessly disregarded the falsity of the CMP Statements, and the improper uses of "CMP" funds described above. Wildeman and Ballew nonetheless sent the CMP Statements to Northshore, either knowing or recklessly disregarding that the CMP was not an actual legal entity, that the CMP Statements falsely reported that the CMP cash or cash-equivalents were on deposit in the fictitious CMP, and either knowing or recklessly disregarding that the CMP Statements falsely reported fictitious "income" on non-existent Ardent Funds investments.

65. Saldutti knew from its inception that the "CMP" was not an actual legal entity. As Saldutti also knew, his transfers of cash to Northshore that were reported on the CMP Statements were simply transfers to Wildeman, and were part of Saldutti's general and undisclosed delegation of control, including investment control, of those Ardent Funds assets to Wildeman, in contravention of the representations in the Ardent Funds Offering Memoranda that Saldutti would make all investment decisions regarding the Ardent Funds Assets. Saldutti did nothing to verify the information contained in the CMP Statements and had no specific knowledge of what the Ardent Funds' cash reported on the CMP Statements was invested in or where it was custodied or maintained. Saldutti knowingly or recklessly failed to disclose to the

Ardent Funds and their investors his breaches of his duty of care with regard to the cash he transferred to Wildeman (reported on the CMP Statements). Rather, he knowingly permitted the Ardent Funds (and, at least indirectly, the Ardent Funds investors), and BOA to rely upon the purported returns listed in the monthly CMP Statements, which created the false appearance that the CMP was an actual legal entity, was producing profits, and was actually invested. Saldutti's transfer of those funds to Wildeman also created the false impression that he had a basis upon which to recommend the transfers to the Ardent Funds, when in fact, he had no real knowledge of how Wildeman would invest or manage the Ardent Funds' cash.

G. Saldutti's BOA Summaries False Statements

66. Based upon financial information that defendants Saldutti, Wildeman and Ballew supplied to BOA regarding the Ardent Funds' investments, BOA generated website reports titled "Client Position Summary," which purport to list the Ardent Funds' individual investment positions as of a given date (the "BOA Summaries"). BOA updated the BOA Summaries regularly, throughout the time period at issue in this complaint. The BOA Summaries purport to identify, among other things, each individual Ardent Funds investment, the number of units held, the unit cost, market value, and any gain or loss on each purported investment. Saldutti, SCM, and the Ardent Funds made the BOA Summaries available to interested Ardent Funds investors, and at least some Ardent Funds investors reviewed the BOA Summaries.

67. Included among the purported investments detailed on the BOA Summaries are the individual cash transfers that Saldutti made to Northshore. However, the BOA Summaries list those cash transfers generically as "AltCash" or "Alternative Cash" investments or a variation on that label. The BOA Summaries do not mention "Northshore" by name or otherwise

identify Saldutti's cash transfers to Northshore. Furthermore, Saldutti's cash transfers to Northshore are the only entries on the BOA Summaries that do not specifically identify the investment listed.

68. The following chart shows the manner in which the BOA Summaries identified each of Saldutti's individual cash transfers from the Ardent Funds to Northshore.

Transfer Date	Amount	Purported Transfer	BOA Summaries Designation
10/1/02	$6.5 million	LaSalle Fund	"ALTCASH" and "ALTERNATIVE CASH INVESTMENT"
5/6/03	$12.3 million	cash management	"ALTCASHII" and "Alternative Cash II"
7/8/03	$6.15 million	cash management	"ALTCASHII" and "Alternative Cash II"
9/23/03	$7 million	LaSalle Fund	"ALTCASH3", "Alternative Cash Investment 3", "ALTCASH4", and "Alternative Cash Investment 4"
11/13/03	$21 million	Loan or other transfer	"ALTCASH5"
6/7/04	$2.5 million	Loan or other transfer	"ALTCASHIV" and "Alternative Cash Investment IV"
8/27/04	$10 million	Loan to Northshore	"ALTCASH7" and "Alternative cash held away"

69. The BOA Summaries' "cash" designations listed for the LaSalle Fund and the final three transfers (loans or, alternatively, cash transfers without consideration) in the chart above were false and misleading because, contrary to the designations, those investments were not "cash" investments but rather, were relatively illiquid and risky. According to the LaSalle Fund's Offering Memorandum, (a) investment in the LaSalle Fund "is speculative and involves significant risk;" (b) "Northshore is a new firm and has no operating history upon which its performance can be evaluated"; and (c) the LaSalle Fund's management fee structure "may give

Northshore, in its role as Investment Manager, an incentive to make riskier or more aggressive investments that it would otherwise make." The final three cash transfers apparently were loans to Northshore, which by definition are not "cash" or cash-equivalent investments.

70. Saldutti either knew or recklessly disregarded, at the least, that the Ardent Funds' LaSalle Fund and final three cash transfers to Northshore set forth above were not "cash" investments.

71. Saldutti nonetheless knowingly or recklessly directed and caused BOA to employ the "cash" designations listed above for the BOA Summaries, approved BOA's use of those designations on the BOA Summaries, and/or permitted them to appear on the BOA Summaries.

72. Saldutti made the BOA Summaries available, or caused the BOA Summaries to be made available, to Ardent Funds investors.

73. Saldutti knowingly or recklessly failed to disclose to the Ardent Funds and their investors that the "AltCash" designations on the BOA Summaries listed above referred to Saldutti's $65 million in cash transfers to Northshore.

74. In a July 2003 telephone call with Saldutti, an Ardent Fund investor ("Investor A") discussed with Saldutti the "alternative cash investment" designations listed on the BOA Summaries (which, at that time, applied to the first three cash transfers listed in the chart above, and constituted 17% of the Ardent Funds' investments). Saldutti falsely stated during that conversation that the "alternative cash investments" were investments in "cash-enhanced" funds from BOA. Contrary to Saldutti's statement, at that time, none of the transferred cash was held at BOA, and $6.5 million of it was invested in the LaSalle Fund, which Saldutti knew or recklessly disregarded was not a cash or cash-equivalent investment. Saldutti did not mention

the LaSalle Fund during his July 2003 telephone call with Investor A, and he did not inform Investor A that he had delegated control and investment authority to Wildeman and Northshore regarding the transferred funds at issue.

75. On November 18, 2003, Investor A met in New York City with Saldutti and a BOA account representative responsible for the Ardent Funds' accounts. During that meeting, the BOA representative incorrectly stated that BOA was the custodian for 100% of the Ardent Funds' assets. Saldutti failed to correct that statement, even though he knew or recklessly disregarded that, at that time, the Ardent Funds already had transferred a combined total of at least $31.5 million to Northshore, cash for which BOA was not a custodian.

76. In August 2003, another Ardent Offshore investor ("Investor B") received similar false information from Saldutti. At that time, Investor B inquired of Saldutti regarding the "Alternative Cash Investment" entry on the BOA Summaries (i.e., the LaSalle Fund investment). In response, Saldutti e-mailed Investor B the following false description:

> alternative cash investment refer to cash equivalents, much like bank of america global, but higher returning at no higher risk than bank of america global. they allow me to capture more for you of what bank of america would keep for itself (as ardent's prime broker), if i didn't intervene.

Saldutti thus falsely or misleadingly represented to Investor B that the "Alternative Cash Investment" was a "cash equivalent" investment, even though Saldutti knew, or recklessly disregarded, that the LaSalle Fund was not a "cash equivalent" investment (but rather, a risky, illiquid investment). Furthermore, Saldutti knowingly or recklessly failed to disclose in his response e-mail anything about Northshore, its control of Ardent Funds cash, or his delegation of investment authority to Northshore regarding that cash.

77. As detailed above, subsequent to Saldutti's false explanations to Investor A and Investor B regarding the "cash" listings on the BOA Summaries, Saldutti proceeded to transfer an additional $33.5 million to Northshore, which the BOA Summaries identify with similar "cash" designations. As noted above, Saldutti knew or recklessly disregarded that those transfers -- which were either unsecured loans without any executed loan documentation or, alternatively, transfers to Northshore without consideration and for which no executed documentation exists or existed -- likewise were not cash or cash-equivalent investments. Neither Saldutti nor any of the other Defendants, their employees or agents, however, took any action to notify Investor A or Investor B (or any other Ardent Funds investor, or the Ardent Funds), that those subsequent "cash" designations likewise were neither cash nor cash-equivalent investments, and none of the Ardent Funds investors otherwise received any notification or other information regarding the true nature of those transfers. Saldutti also knowingly or recklessly never disclosed to the Ardent Funds or their investors Saldutti's extreme conflicts of interest arising from the combination of those cash transfers and Saldutti's simultaneous lucrative financial arrangements with Northshore.

H. Additional Saldutti Misrepresentations and Omissions to Ardent Funds Investors

1. Investor C

78. Beginning at least as early as September 2004 and continuing through early 2005, Saldutti learned of numerous facts indicating that Northshore and the Ardent Funds were experiencing serious financial and other difficulties, including Saldutti's repeated inability to access the tens of millions of dollars in Ardent Funds cash that he had transferred to, and that remained in, Northshore's control, and his inability to obtain payment of money that Northshore

owed Saldutti personally. At the same time, Saldutti badly needed this cash to meet millions of dollars in pending Ardent Funds investor redemption requests and for Ardent Funds investment needs. Saldutti knowingly or recklessly failed to disclose any of these matters to the Ardent Funds or their investors.

79. Between November 10 and November 15, 2004, Saldutti had a series of telephone conversations with another Ardent Fund investor ("Investor C"). During those conversations, Investor C informed Saldutti that Investor C wished to redeem its entire Ardent Domestic investment. Saldutti did not mention any of Northshore's or the Ardent Funds' financial and other difficulties. Rather, in an attempt to persuade Investor C to maintain its Ardent Domestic investment, Saldutti misleadingly reassured Investor C that the Ardent Funds' portfolio was in sound financial condition and, thus, convinced Investor C to withdraw only 75% of its Ardent Domestic investment.

80. On or about December 8, 2004, federal authorities arrested defendant Kelley, who was Northshore's CEO, and charged him in a criminal complaint with investment adviser fraud unrelated to the fraud alleged in this complaint. The United States Attorney for the Southern District of New York charged that, during 2000, while acting as an investment adviser, Kelley had engaged in a scheme to defraud his clients by (a) causing his clients to invest in the stock of a company without disclosing to them Kelley's financial interest in that company; and (b) investing his clients' money in the stock of that company without his clients' authorization. The criminal complaint further charged that Kelley had provided his clients with brokerage account statements that falsely represented that investments had been made and falsely represented that the investments had values far in excess of the investments' true value.

81. Saldutti knew of Kelley's arrest at the time of his arrest on December 8, 2004, and knew of the nature of the criminal charges against Kelley. For example, on December 9, 2004, the Assistant United States Attorney in charge of prosecuting Kelley (the "AUSA") interviewed Saldutti in person at the offices of the United States Attorney in Manhattan for the purpose of considering Saldutti's application to become a surety on a bail bond for Kelley. At that interview, the AUSA explained to Saldutti the charges against Kelley, and his potential criminal penalties (including a maximum of 5 years' imprisonment, and significant monetary fines). The AUSA also confirmed with Saldutti at that December 9 interview that Saldutti understood the charges and potential penalties against Kelley. On or about December 9, Saldutti became a bail bond surety for Kelley.

82. Saldutti nonetheless failed to disclose Kelley's arrest, or the investment adviser fraud charges against him, to Investor C, to the Ardent Funds, or to any of the other Ardent Funds investors.

83. In December 2004, Saldutti learned from Kelley that Northshore had fired Wildeman, Northshore's COO, who purportedly was in control of much of the Ardent Funds' cash that Saldutti had transferred to Northshore.

84. Saldutti nonetheless failed to disclose Wildeman's firing to Investor C, to the Ardent Funds, or to any of the other Ardent Funds investors.

85. In early January 2005, Investor C contacted Saldutti to discuss its 75% redemption request, which Ardent Domestic was late in satisfying. In a telephone discussion on January 11, 2005, Saldutti misleadingly told Investor C that the delay had been caused by a run on assets and unexpected challenges. Saldutti also falsely informed Investor C that the

Northshore-managed cash was tied up in certain money market trades that were being unwound in the BOA account. Saldutti further misleadingly assured Investor C that the money to satisfy Investor C's redemption would be available by the end of that week (January 14, 2005). On January 14, when Investor C still had not received its 75% redemption request, Investor C again contacted Saldutti. At that time, Saldutti falsely told Investor C that the purported money market trades were taking longer than expected to unwind, but that a great deal of the money would be available on January 20, with more to follow shortly thereafter. On January 27, Saldutti informed Investor C that, in fact, Northshore likely had misappropriated and/or placed in illiquid investments the cash necessary for Investor C's redemption request. Investor C has not received any of its requested redemption.

86. At the time that Saldutti made the false and/or misleading statements and omissions to Investor C described above, Saldutti either knew or recklessly disregarded that his statements and omissions to Investor C were false and/or misleading. At that time, Saldutti either knew or recklessly disregarded that the cash necessary to make the redemption requests was not held at BOA but rather was held by Northshore or Northshore-controlled entities (or had been dissipated by Northshore). Furthermore, Saldutti either knew or recklessly disregarded that he had no reasonable basis upon which to assure Investor C that its redemption request would be timely honored.

2. Investors D and E

87. In or about late November 2004 through early January 2005, Saldutti personally facilitated investments in Ardent Domestic by two new investors (Investors "D" and "E").

During all relevant time periods, Investor E was Investor D's accountant and personal financial adviser.

88. As of November 2004, Investor D was an old friend of Saldutti's and was not a sophisticated investor, and Saldutti knew that Investor D was not a sophisticated investor. Saldutti further knew that Investor D relied upon, and would rely upon, Investor E's advice regarding whether to invest in the Ardent Fund. Indeed, as Saldutti knew, prior to investing in the Ardent Fund, Investor D arranged for his accountant (Investor E) to speak with Saldutti regarding Investor D's potential investment in the Ardent Fund, and Saldutti spoke with Investor E regarding the Ardent Fund.

89. In connection with the December 2004 Investor D and E investments, Saldutti also knowingly or recklessly provided Investor E a 1992 Ardent Domestic POM, which falsely states that Saldutti "is the managing general partner of Saldutti Capital Management, L.P., the general partner of" Ardent Domestic. The Ardent Domestic POM further falsely stated that "all investment decisions concerning [the Ardent Funds] assets and funds will be made by" Saldutti.

90. On December 28 and 29, 2004, Investor E signed two sets of Ardent Domestic subscription agreements and limited partnerships agreements, one set on behalf of Investor D (with Investor D's authorization) and one on Investor E's own behalf, thus committing each to invest $500,000 in Ardent Domestic (the "Investor D and E Agreements").

91. The Investor D and E Agreements both falsely identify Saldutti as the "General Partner" of "Saldutti Capital Management, L.P.," and Saldutti knowingly or recklessly falsely signed the Investor D and E Agreements as "general partner" of SCM, a position he had not held since April 2003 when he sold his general partnership interest in SCM to Northshore.

92. The Investor D Ardent Domestic subscription and limited partnership agreements, which both Investor E and Saldutti signed, state that Investor D "has relied on [Investor E] . . . as his financial advisor."

93. By check dated January 5, 2005, Investor D paid $500,000 to the Ardent Domestic Fund, representing his investment in the fund.

94. On or about January 4, 2005, by wire transfer, Investor E paid $500,000 to the Ardent Domestic Fund, representing his investment in the Ardent Domestic Fund.

95. Prior to the Investor D and E investments in the Ardent Fund, Saldutti knowingly or recklessly failed to disclose to Investor E anything regarding Northshore or its relationship to Saldutti, the Ardent Funds, and SCM. Nor was Investor E otherwise aware of any of those matters.

96. Prior to the Investor D and E investments in the Ardent Fund, Saldutti knowingly or recklessly failed to disclose to both Investor D and E Northshore CEO Kelley's December 8, 2004 arrest for investment adviser fraud and the related investment adviser fraud charges against him. Nor were Investor D or E otherwise aware of those matters. Saldutti likewise knowingly or recklessly failed to disclose to both Investor D and E Northshore COO Wildeman's purported firing in December 2004. Saldutti likewise knowingly or recklessly failed to disclose to both Investor D and E the numerous other difficulties he was experiencing with Northshore and the Ardent Funds at that time, including his long-time inability to communicate with Wildeman (and Northshore generally) concerning a host of significant matters, including the availability and return of the Ardent Funds cash that Saldutti had transferred to Northshore and his inability to obtain payment of money that Northshore owed Saldutti personally.

I. Sherman Ausam Offering Fraud

97. Ausam Biotechnologies, Inc. ("Ausam") is a private biotechnology company of which defendant Sherman was a founder and is a major shareholder, and of which defendants Sherman and Wildeman are former directors.

98. In March of 2004, in connection with a purported private offering of Ausam stock, Sherman made false representations to a potential Ausam investor ("Investor F") to induce Investor F and Investor F's father ("Investor G") to invest $203,000 each, purportedly in Ausam stock, but in reality in a Northshore-controlled entity called the "Northshore Special Situation Fund I" ("NSSF").

99. In or about February 2004, Sherman contacted Investor F and represented to Investor F that Ausam was planning a private placement offering of Ausam preferred stock. Sherman sent Investor F an Ausam Confidential Private Offering Memorandum and Subscription Agreement (the "AusAm Offering Documents"), which stated that Ausam intended to use the funds raised in the offering to develop Ausam's business.

100. Investor F subsequently contacted Sherman to inform him that the Ausam Offering Documents included a minimum investment requirement of $500,000 per investor that neither he nor his father could satisfy. Sherman falsely assured Investor F that he and his father could make their smaller investments in Ausam.

101. Investor F then copied the Ausam Offering Documents and forwarded them to his father, Investor G, so that he too could invest.

102. On or about March 22 and March 25, 2004, Investor F and Investor G each signed and sent to Northshore separate Ausam Subscription Agreements, which state that Investor F and

Investor G were each purchasing 7,000 shares of "Series C Convertible Preferred Stock" for $203,000 each.

103. A few weeks after mailing in the completed Ausam Offering Documents, Investor F called Sherman to inquire as to the whereabouts of his and his father's anticipated Ausam stock certificates. Sherman falsely assured Investor F that that he and his father would receive their certificates shortly. In fact, Investor F and Investor G never received Ausam stock certificates.

104. Contrary to Sherman's false promises and inducements to Investor F, the money that he and his father intended to invest in Ausam was not invested directly in Ausam. Instead, and contrary to Sherman's representations to Investor F and Investor G, Northshore pooled their funds with other investors' funds and Ardent Funds cash into the NSSF, and later loaned half of the NSSF funds to Ausam and transferred half to Northshore (which Northshore then used primarily to pay its own operating expenses). Instead of receiving Ausam stock certificates, Investor F and Investor G received NSSF statements indicating that they had purchased interests in NSSF.

105. At the time that Sherman falsely induced Investor F and Investor G to invest in Ausam, and thereafter, Sherman either knew or recklessly disregarded that Investor F's and Investor G's invested funds were to be deposited, and were deposited, into the NSSF, and that their funds were actually used in the manner described above.

J. <u>Saldutti's False Statements to Investor H</u>

106. In addition to the Ardent Funds, Saldutti, through SCM, acted as investment manager and adviser to certain other individual clients, each of whom contracted separately with SCM. One such investment client was Investor H, an institutional investor.

107. On or about July 25, 2002, SCM and Investor H executed a written "Investment Management Agreement" under which Saldutti (through SCM and, subsequently, Northshore) acted as Investor H's investment adviser from July 2002 through June 2003.

108. On May 8, 2003, after the completion of Northshore's purchase of SCM from Saldutti, Saldutti met with Investor H's representatives. At that meeting, Saldutti falsely told Investor H's representatives that he was considering selling SCM to Northshore, even though the sale had already been completed by the end of April 2003.

<u>FIRST CLAIM FOR RELIEF</u>
Violations of Sections 206(1) and 206(2) of the Advisers Act
(Defendants Northshore, SCM and Saldutti)

109. Paragraphs 1 through 108 are re-alleged and incorporated by reference as if fully set forth herein.

110. From at least April 2003 through February 2005, Saldutti, Northshore and SCM, all investment advisers to the Ardent Funds, directly or indirectly, singly or in concert, by the use of the means or instruments of transportation or communication in interstate commerce, or of the mails, employed devices, schemes and artifices to defraud the Ardent Funds, and engaged in transactions, practices and courses of business which operated as fraud and deceit upon the Ardent Funds.

111. As investment advisers to the Ardent Funds, defendants Saldutti, SCM, and Northshore owed the Ardent Funds fiduciary duties of utmost good faith, fidelity, and care to make full and fair disclosure to them of all material facts concerning the Ardent Funds -- including any material changes in the management of the Ardent Funds and their assets and any

conflicts or potential conflicts of interest -- as well as the duty to act in the Ardent Funds' best interests, and not to act in defendants' own interests to the detriment of the Ardent Funds.

112. Saldutti, SCM, and Northshore breached their fiduciary duties to the Ardent Funds, engaged in fraudulent conduct, and engaged in a scheme to defraud the Ardent Funds, in violation of Sections 206(1) and 206(2) of the Advisers Act, by (a) failing to disclose to the Ardent Offshore fund and to at least a large number of Ardent Domestic Fund investors the April 2003 purchase of Saldutti's interest in SCM by Northshore; (b) failing to disclose to the Ardent Funds Saldutti's complete delegation of responsibility to Wildeman to manage a significant portion of the Ardent Funds' cash, and his transfers of much of that cash away from the custody of BOA; (c) failing to disclose to the Ardent Funds and all of the Ardent Funds investors Saldutti's severe conflicts of interest arising from his lucrative personal financial arrangements with Northshore and his simultaneous transfers of $65 million in Ardent Funds cash to Northshore; and (d) failing to disclose to the Ardent Funds and all of the Ardent Funds investors the numerous Northshore and Ardent Funds problems that Saldutti encountered during the fall and winter of 2004-2005, including Kevin Kelley's December 8, 2004 arrest for investment adviser fraud and the related criminal charges against him, Wildeman's firing from Northshore, and Saldutti's inability to retrieve, or communicate with Northshore regarding, the Ardent Funds cash he had transferred to Northshore.

113. Saldutti and SCM further breached their fiduciary duties to the Ardent Funds, engaged in fraudulent conduct, and furthered their fraudulent scheme, in violation of Sections 206(1) and 206(2) of the Advisers Act, by making, or causing to be made, false and/or misleading statements to Ardent Funds investors regarding (a) SCM's and Saldutti's relationship

to Northshore; (b) Saldutti's post-April 2003 relationship to SCM, and (c) the nature of the Ardent Funds' $65 million in cash that Saldutti transferred to Northshore.

114. Defendants Saldutti and SCM further breached their fiduciary duties to Investor H, engaged in fraudulent conduct, and furthered their fraudulent scheme, in violation of Sections 206(1) and 206(2) of the Advisers Act, by knowingly or recklessly making the material misrepresentations and omissions to Investor H set forth in paragraphs 106-108 above.

115. In the alternative, Saldutti violated Sections 206(1) and 206(2) of the Advisers Act by aiding and abetting SCM's and Northshore's violations of those provisions described in paragraphs 109-114 above.

SECOND CLAIM FOR RELIEF
Violations of Section 17(a) of the Securities Act
(Defendant Saldutti)

116. Paragraphs 1 through 115 are re-alleged and incorporated by reference as if fully set forth herein.

117. From in or about November 2004 through January 2005, defendant Saldutti, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by the use of the mails, directly and indirectly, has employed devices, schemes and artifices to defraud.

118. From in or about November 2004 through January 2005, defendant Saldutti, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by the use of the mails, directly and indirectly, obtained money and property by means of untrue statements of material fact or omissions 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 engaged in transactions, practices or courses of business which operated as a fraud and deceit upon certain Ardent Funds investors.

119. Defendant Saldutti knew or was reckless in not knowing that the material representations and omissions set forth in paragraphs 87-96 above concerning Ardent Funds Investors D and E were false and/or misleading.

120. By reason of the activities described herein, defendant Saldutti has violated Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

THIRD CLAIM FOR RELIEF
Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder
(Defendants Saldutti and SCM)

121. Paragraphs 1 through 120 are re-alleged and incorporated by reference as if fully set forth herein.

122. From in or about November 2004 through January 2005, defendants Saldutti and SCM, in connection with the purchase and sale of securities, directly and indirectly, by the use of the means and instrumentalities of interstate commerce or of the mails, employed devices, schemes and artifices to defraud; made untrue statements of material fact 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 engaged in acts, practices and courses of business which operated as a fraud and deceit upon the Ardent Funds and the Ardent Funds investors.

123. Saldutti and SCM breached their fiduciary duties to the Ardent Funds, engaged in fraudulent conduct, and engaged in a scheme to defraud the Ardent Funds, in violation of Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, by (a) failing to disclose to the Ardent

Offshore fund and to at least a large number of Ardent Domestic Fund investors the April 2003 purchase of Saldutti's interest in SCM by Northshore; (b) failing to disclose to the Ardent Funds (i) Saldutti's complete delegation of responsibility to Wildeman to manage a significant portion of the Ardent Funds' cash, (ii) his transfers of much of that cash away from the custody of BOA, and (iii) his lack of knowledge and the consequent risks of where or how Wildeman invested the Ardent Funds' cash; (c) failing to disclose to the Ardent Funds and all of the Ardent Funds investors Saldutti's severe conflicts of interest arising from his lucrative personal financial arrangements with Northshore and his simultaneous transfers of $65 million in Ardent Funds cash to Northshore; and (d) failing to disclose to the Ardent Funds and all of the Ardent Funds investors the numerous Northshore and Ardent Funds problems that Saldutti encountered during the fall and winter of 2004-2005, including Kevin Kelley's December 8, 2004 arrest for investment adviser fraud and the related criminal charges against him, Wildeman's firing from Northshore, and Saldutti's inability to retrieve, or communicate with Northshore regarding, the Ardent Funds cash he had transferred to Northshore.

124. Saldutti and SCM further breached their fiduciary duties to the Ardent Funds, engaged in fraudulent conduct, and furthered their fraudulent scheme, in violation of Exchange Act Section 10(b), and Rule 10b-5 thereunder, by making, or causing to be made, false and/or misleading statements to Ardent Funds investors regarding (a) SCM's and Saldutti's relationship to Northshore; (b) Saldutti's post-April 2003 relationship to SCM, and (c) the nature of the Ardent Funds' $65 million in cash that Saldutti transferred to Northshore.

125. Defendants Saldutti and SCM further breached their fiduciary duties to the Ardent Funds, engaged in fraudulent conduct, and furthered their fraudulent scheme, in violation of

Exchange Act Section 10(b), and Rule 10b-5 thereunder, by knowingly or recklessly making the material misrepresentations and omissions set forth in paragraphs 78-96 above concerning Ardent Funds Investor C, Investor D, and Investor E.

126. Defendant Saldutti knew or was reckless in not knowing that the material representations and omissions set forth in paragraphs 78-96 above concerning Ardent Funds Investor C, Investor D, and Investor E were false and/or misleading.

127. By reason of the activities described herein, the defendants Saldutti and SCM have 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, promulgated thereunder.

FOURTH CLAIM FOR RELIEF
Violations of Sections 206(1) and 206(2) of the Advisers Act
(Defendants Northshore, SCM, Kelley, Wildeman, Sherman, and Ballew)

128. Paragraphs 1 through 127 are re-alleged and incorporated by reference as if fully set forth herein.

129. From at least April 2003 through at least January 2005, defendants Northshore and SCM, aided and abetted by defendants Kelley, Wildeman, Sherman, knowingly or recklessly engaged in and orchestrated a fraudulent scheme to violate Northshore's and SCM's fiduciary obligations of full disclosure and fidelity to the Ardent Funds, in violation of Sections 206(1) and 206(2) of the Advisers Act. Defendants Northshore and SCM, aided and abetted by defendants Kelley, Sherman, and Wildeman, breached their fiduciary duties of full disclosure and fidelity to the Ardent Funds, and engaged in fraudulent conduct, by engaging in undisclosed self-dealing and diversion of tens of millions of dollars of Ardent Funds cash, either by paying that cash

directly to themselves, or by investing it for their own benefit and to the detriment of the Ardent Funds investors.

130. From at least April 2003 through at least January 2005, defendants Ballew and Wildeman knowingly or recklessly engaged in a fraudulent scheme to violate Northshore's and SCM's fiduciary obligations of full disclosure and fidelity to the Ardent Funds, in violation of Sections 206(1) and 206(2) of the Advisers Act. Defendants Northshore and SCM, aided and abetted by Ballew and Wildeman, breached their fiduciary duties of full disclosure and fidelity to the Ardent Funds, and engaged in fraudulent conduct, by knowingly or recklessly creating and disseminating false and fraudulent monthly CMP Statements, as described in paragraphs 53-58 above.

131. By reason of the foregoing, defendants Northshore and SCM are primary violators of Sections 206(1) and 206(2) of the Advisers Act, 15 U.S.C. §§ 80b-6(1) and 80b-6(2), and defendants Kelley, Sherman, Wildeman, and Ballew aided and abetted Northshore's and SCM's violations, also in violation of Sections 206(1) and 206(2) of the Advisers Act.

FIFTH CLAIM FOR RELIEF
Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder
(Defendants Northshore, SCM, Kelley, Sherman, Wildeman, and Ballew)

132. Paragraphs 1 through 131 are re-alleged and incorporated by reference as if fully set forth herein.

133. From at least October 2002 through at least January 2005, the Northshore Defendants and Ballew, in connection with the purchase and sale of securities, directly and indirectly, by the use of the means and instrumentalities of interstate commerce or of the mails, employed devices, schemes and artifices to defraud, made untrue statements of material fact 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 engaged in acts, practices and courses of business which operated as a fraud and deceit upon Ardent Funds and the Ardent Funds investors.

134. From at least April 2003 through at least January 2005, defendants Northshore, Kelley, Wildeman, and Sherman, knowingly or recklessly engaged in and orchestrated a fraudulent scheme to violate Northshore's and SCM's fiduciary obligation of full disclosure and fidelity to the Ardent Funds and the Ardent Funds investors. Defendants Northshore, Kelley, Sherman, and Wildeman breached their fiduciary duties of full disclosure and fidelity to the Ardent Funds and the Ardent Funds investors, and engaged in fraudulent conduct, by engaging in self-dealing and diversion of tens of millions of dollars of Ardent Funds cash, either by paying that cash directly to themselves, or by investing it for their own benefit and to the detriment of the Ardent Funds and the Ardent Funds investors in various securities.

135. From at least April 2003 through at least January 2005, defendants Ballew and Wildeman knowingly or recklessly engaged in a fraudulent scheme to violate Northshore's and SCM's fiduciary obligation of full disclosure and fidelity to the Ardent Funds and the Ardent Funds investors. Defendants Ballew and Wildeman did so by knowingly or recklessly creating and disseminating false and fraudulent monthly CMP Statements, as described in paragraphs 59-65 above.

136. In the alternative, pursuant to Section 20(e) of the Exchange Act, defendants Kelley, Wildeman, and Sherman are liable for aiding and abetting Northshore's and SCM's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

137. In the alternative, pursuant to Section 20(e) of the Exchange Act, defendant Ballew is liable for aiding and abetting the Northshore Defendants' violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

138. In the alternative, pursuant to Section 20(a) of the Exchange Act, as controlling persons of defendants Northshore and SCM, defendants Kelley, Wildeman, and Sherman are liable for defendant Northshore's and SCM's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

SIXTH CLAIM FOR RELIEF
Violations of Section 17(a) of the Securities Act
(Defendant Sherman)

139. Paragraphs 1 through 138 are re-alleged and incorporated by reference as if fully set forth herein.

140. In or February and March 2004, defendant Sherman, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by the use of the mails, directly and indirectly, employed devices, schemes and artifices to defraud.

141. In or about February and March 2004, defendant Sherman, in the offer and sale of securities, by the use of the means and instruments of transportation or communication in interstate commerce or by the use of the mails, directly and indirectly, obtained money and property by means of untrue statements of material fact or omissions 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 engaged in transactions, practices or courses of business which operated as a fraud and deceit upon Investor F and Investor G.

142. Sherman knew or was reckless in not knowing that the material representations and omissions set forth in paragraphs 97-105 above concerning Investor F and Investor G were false and/or misleading.

143. By reason of the activities described herein, the defendant Sherman has violated Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court grant the following relief:

I.

Continuation (and, to the extent necessary, modification) of the previously-issued preliminary injunction Order preliminarily, and a Final Judgment permanently, restraining and enjoining the Defendants, their agents, servants, employees and attorneys and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from future 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.

II.

Continuation (and, to the extent necessary, modification) of the previously-issued preliminary injunction Order preliminarily, and a Final Judgment permanently, restraining and enjoining Defendants Northshore, SCM, Wildeman, Kelley, Sherman, Saldutti, and Ballew, their agents, servants, employees and attorneys and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations of Sections 206(1) and 206(2) of the Advisers Act, 15 U.S.C. §§

80b-6(1) and 80b-6(2).

III.

Continuation (and, to the extent necessary, modification) of the previously-issued preliminary injunction Order preliminarily, and a Final Judgment permanently, restraining and enjoining defendants Sherman, and Saldutti, their agents, servants, employees and attorneys and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations of Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

IV.

Continuation of the appointment of a receiver for Northshore, SCM, Ardent Domestic, Ardent Offshore, and any other appropriate entities, to (1) preserve the status quo, (2) ascertain the financial condition of Northshore, SCM, Ardent Domestic, and Ardent Offshore, and the disposition of investor funds, (3) prevent further dissipation of Northshore, SCM, Ardent Domestic, and Ardent Offshore's property and assets, to prevent loss, damage, and injury to investors, (4) preserve Northshore, SCM, Ardent Domestic, and Ardent Offshore's books, records, and documents, and (5) be available to respond to investor inquiries.

V.

Continuation of the preliminary injunction Order directing certain Defendants, their agents, banks, debtors, bailees, servants, employees, and attorneys-in-fact, and those persons in active concert or participation with said Defendants who receive actual notice of said Order by personal service, facsimile, or otherwise, and each of them, to hold and retain within their control, and otherwise prevent any withdrawal, transfer, pledge, encumbrance, assignment, dissipation, concealment, or other disposal of any of said Defendants' assets, funds or other properties of any kind wherever situated, and assets over which said Defendants have control by signatory authority or otherwise.

VI.

Continuation (and, to the extent necessary, modification) of the preliminary injunction Order directing each of the Defendants to file with this Court and serve upon the Commission, within three (3) business days, or within such extension of time as the Commission staff agrees to, a verified written accounting, signed by each Defendant under penalty of perjury, setting forth:

(1) All assets, liabilities and property currently held directly or indirectly by or for the benefit of such Defendant, including but not limited to bank accounts, brokerage accounts, investments, business interests, loans, lines of credit, and real and personal property wherever situated, describing each asset and liability, its current location and amount;

(2) All money, property, assets, and other income received by such Defendant, or for their direct or indirect benefit, in or at any time from January 1, 2003 to the date of the accounting, describing the source, amount, disposition and current location of each of the items listed;

(3) All assets, funds, securities, real or personal property of customers of such Defendant, transferred to or for the benefit of such Defendant in or at any time from January 1, 2003 to the date of the accounting, and the disposition by such Defendant of such assets, funds, securities, real or personal property;

(4) All money, property, assets and other income transferred from such Defendant, including transfers to any bank account, brokerage account or other account, or to any individual, or entity, in or at any time from January 1, 2003 to the date of the accounting; and

(6) The names and last known addresses of all bailees, debtors, and other persons and entities which are currently holding the assets, funds or property of such Defendant.

VII.

Continuation of the preliminary injunction Order permitting the Commission to conduct expedited discovery, and expansion of the preliminary injunction Order to permit the Court-appointed receiver to take expedited discovery.

VIII.

Continuation and modification of the preliminary injunction Order to enjoin and restrain each of the Defendants, and any person or entity acting at their direction or on their behalf, from destroying, altering, concealing, or otherwise interfering with the access of the Commission to relevant documents, books and records.

IX.

A Final Judgment determining each of the Defendants must disgorge their ill-gotten gains, plus prejudgment interest, and such other and further amount as the Court may find appropriate.

X.

A Final Judgment determining each of the Defendants must pay civil money 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), and determining that Defendants Northshore, SCM, Wildeman, Kelley, Sherman, Saldutti, and Ballew must pay civil money penalties pursuant to Section 209 of the Advisers Act, 15 U.S.C. § 80b-9.

XI.

Such other and further relief as to this Court deems just and proper.

Dated: New York, New York
March 28, 2008

By: s/Jack Kaufman

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