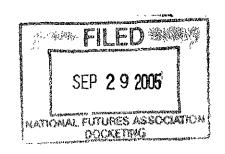
NATIONAL FUTURES ASSOCIATION BEFORE THE BUSINESS CONDUCT COMMITTEE



In the Matter of:)
PHILADELPHIA ALTERNATIVE ASSET MANAGEMENT CO. LLC (NFA ID #326824),)))
and) NFA Case No. 05-BCC-023
PAUL M. EUSTACE (NFA ID #236347),) }
Respondents.	ý

COMPLAINT

Having reviewed the investigative report submitted by the Compliance Department of National Futures Association ("NFA"), and having found reason to believe that NFA Requirements are being, have been or are about to be violated and that the matter should be adjudicated, NFA's Business Conduct Committee ("Committee") issues this Complaint against Philadelphia Alternative Asset Management Co. LLC ("PAAM") and Paul M. Eustace ("Eustace").

ALLEGATIONS

JURISDICTION

 At all times relevant to this Complaint, PAAM was a commodity pool operator and a former commodity trading advisor NFA Member located in Philadelphia, Pennsylvania. 2. At all times relevant to this Complaint, Eustace was the founder, managing member and an associated person ("AP") of PAAM.

BACKGROUND

- 3. NFA commenced an investigation of PAAM and Eustace in late 2004. NFA's investigation initially began as a narrow inquiry focused on a bond trade that Eustace originally placed in his proprietary account and later transferred to the account of one of his managed account customers. Although the trade resulted in a profit for the customer, the customer was unhappy with the way in which Eustace managed its account and felt that Eustace had deviated from the trading strategy they had agreed on. The customer complained to NFA and NFA commenced an inquiry into the trading in the customer's account and the circumstances surrounding the transferred bond trade.
- 4. NFA's investigation grew into a full scale review of PAAM and Eustace's operations. Ultimately, the investigation revealed that Eustace and PAAM used false performance data showing a 25% rate of return to fraudulently solicit prospective investors for an investment in a commodity pool called Philadelphia Alternative Asset Fund LP ("LP Fund"), and issued false statements to participants showing profitable futures trading for the LP Fund when in actuality, the LP Fund never traded futures or options.
- 5. NFA's investigation found that PAAM and Eustace posted false trading results on the PAAM website, which showed profitable trading in the first half of 2005, for two other pools they operated, viz., an off-shore fund known as the Philadelphia Alternative Asset Fund, Ltd. ("Ltd. Fund") and a domestic fund known as

Philadelphia Alternative Asset Feeder Fund, LLC. ("Feeder Fund"). Contrary to the profitable performance claims on PAAM's website, the Ltd. Fund and Feeder Fund – which began operating in 2004 and eventually accepted over \$230 million from pool participants – experienced huge losses in the first half of 2005.

APPLICABLE RULES

- 6. NFA Compliance Rule 2-2(c) provides that no Member or Associate shall willfully make or cause to be made to a customer a false report, or willfully to enter or cause to be entered for a customer a false record, in or in connection with any commodity futures contract.
- 7. NFA Compliance Rule 2-2(f) provides that no Member or Associate shall willfully submit materially false or misleading information to NFA or its agents.

COUNT I

VIOLATION OF NFA COMPLIANCE RULES 2-2(c) AND 2-2(f): PROVIDING MISLEADING INFORMATION TO POOL PARTICIPANTS AND TO NFA.

- 8. The allegations contained in paragraphs 1 through 7 are realleged as paragraph8.
- 9. In April 2005, NFA deposed Eustace concerning the circumstances surrounding the bond trade described in paragraph 3, above. During the deposition, Eustace represented that he was no longer managing accounts for customers and that, instead, was managing two commodity pools the Ltd. Fund and the Feeder Fund. Eustace further represented that he did not trade any other accounts or operate any other funds. Eustace made no mention of the LP Fund.
- 10. After the deposition, NFA addressed some follow-up questions to the managed account customer who had originally complained about Eustace. In the course of

- questioning, the customer told NFA that Eustace had also solicited it to invest in the LP Fund but that it had declined. This was the first time that NFA had heard of the LP Fund.
- 11. NFA contacted Eustace and asked him about the LP Fund. At first, Eustace said that the LP Fund only held his personal funds and traded through an account at a Chicago futures commission merchant ("FCM"). Several days later, Eustace claimed that the LP Fund did not have a trading account and was only set up to trade for a state pension plan, which eventually decided not to invest in the LP Fund. As a result, according to Eustace, the LP Fund was dormant.
- 12. Because of the differing stories Eustace gave concerning the LP Fund, NFA sent a Notice to Members asking for information about any accounts maintained by Eustace, PAAM, the Ltd. Fund, and the LP Fund. In response to the Notice, NFA received a call from an individual who said that he had an investment in the LP Fund (which Eustace had claimed was dormant) and that, based on statements he had received from Eustace, his investment was worth approximately \$1 million. This individual provided NFA with the account statements for the LP Fund, which he had received from Eustace, that showed profitable futures and options trading in the LP Fund's account.
- 13. In an effort to find out where the LP Fund traded, NFA contacted all FCMs by telephone to determine if they had a trading account for the LP Fund, but none of them did.
- 14. NFA requested all documents from Eustace pertaining to the LP Fund. NFA also decided to review the activity of the Ltd. Fund and the Feeder Fund and,

- therefore, requested performance information from the FCMs which carried the accounts for these funds.
- 15. PAAM's website represented that the Ltd. Fund had scored gains of nearly 6% from January through May 20th of 2005. However, the Ltd. Fund actually experienced severe trading losses exceeding \$144 million during this period, and, in May alone, sustained trading losses of approximately \$85 million which constituted more than a 50% loss in the value of the Ltd. Fund's trading accounts. (In September 2004, NFA had reviewed the performance of the Ltd. Fund, as part of its inquiry into the transfer of the bond trade and found no discrepancies at that time.)
- 16. As alleged, above, PAAM and Eustace repeatedly provided false and misleading information to NFA, in the course of its investigation, and also to participants in the LP Fund, Ltd. Fund, and Feeder Fund.
- 17. By reason of the foregoing acts and omissions, PAAM and Eustace are charged with violations of NFA Compliance Rules 2-2(c) and 2-2(f).

PROCEDURAL REQUIREMENTS

ANSWER

You must file a written Answer to the Complaint with NFA within thirty days of the date of the Complaint. The Answer shall respond to each allegation in the Complaint by admitting, denying or averring that you lack sufficient knowledge or information to admit or deny the allegation. An averment of insufficient knowledge or information may only be made after a diligent effort has been made to ascertain the relevant facts and shall be deemed to be a denial of the pertinent allegation.

The place for filing an Answer shall be:

National Futures Association 200 West Madison Street Suite 1600 Chicago, Illinois 60606-3447

Attn: Legal Department-Docketing

Failure to file an Answer as provided above shall be deemed an admission of the facts and legal conclusions contained in the Complaint. Failure to respond to any allegation shall be deemed an admission of that allegation. Failure to file an Answer as provided above shall be deemed a waiver of hearing.

POTENTIAL PENALTIES, DISQUALIFICATION AND INELIGIBILITY

At the conclusion of the proceedings conducted as a result of or in connection with the issuance of this Complaint, NFA may impose one or more of the following penalties:

- (a) expulsion or suspension for a specified period from NFA membership;
- (b) bar or suspension for a specified period from association with an NFA Member;
- (c) censure or reprimand;
- (d) a monetary fine not to exceed \$250,000 for each violation found; and
- (e) order to cease and desist or any other fitting penalty or remedial action not inconsistent with these penalties.

The allegations in this Complaint may constitute a statutory disqualification from registration under Section 8a(3)(M) of the Commodity Exchange Act. Respondents in this matter who apply for registration in any new capacity, including as an associated person with a new sponsor, may be denied registration based on the pendency of this proceeding.

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Pursuant to the provisions of CFTC Regulation 1.63 penalties imposed in connection with this Complaint may temporarily or permanently render Respondents who are individuals ineligible to serve on disciplinary committees, arbitration panels and governing boards of a self-regulatory organization, as that term is defined in CFTC Regulation 1.63.

NATIONAL FUTURES ASSOCIAITON BUSINESS CONDUCT COMMITTEE

Dated: 9-29-05

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AFFIDAVIT OF SERVICE

I, Nancy Miskovich Paschen, on oath state that on September 29, 2005, I served copies of the attached Complaint, by placing such copies in the United States mail, first-class delivery, and by overnight mail, in envelopes addressed as follows:

Paul M. Eustace 2021 Beacon Hill Drive Newtown, PA 18940 Philadelphia Alternative Asset Management Co. LLC 150 Randall Street Suite 103 Oakville, Ontario L6J 1P4 Canada

ancy Miskovich Pascher

Subscribed and sworn to before me on this 29th day of September 2005.

Notary Public

/¡ac(Complaints\PAAM & Eustace)

OFFICIAL SEAL
CHRISTINE MAKINO
NOTARY PUBLIC - STATE OF ILLINOIS
ANY COMMISSION EXPIRES: 10/03/08