IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MARYLAND

UNITED STATES OF AMERICA	)	Crim. No. WDQ-03-0301
	)	
v.	)	(Wire Fraud, 18 U.S.C. §§ 1343 &
	)	1346; Mail Fraud, 18 U.S.C. §§ 1341
NATHAN A. CHAPMAN, JR.,	)	& 1346; Investment Advisory
	)	Fraud, 15 U.S.C. §§ 80b-6 &
Defendant.	)	80b-17; False Statements to a
	)	Federal Government Agency, 18
	)	U.S.C. § 1001; False Statements on
	)	Tax Returns, 26 U.S.C. § 7206(1);
	)	False Statements in Connection with
	)	Loan Application, 18 U.S.C. § 1014;
	)	Engaging in Monetary Transactions
	)	in Property Derived from Specified
	)	Unlawful Activity, 18 U.S.C. § 1957;
	)	Aiding & Abetting and Willfully
	)	Causing an Act to be Done, 18

	)	U.S.C. § 2;
		Criminal Forfeiture,
_____	)	18 U.S.C. § 982)

SECOND SUPERSEDING INDICTMENT

The Grand Jury for the District of Maryland charges:

COUNTS ONE THROUGH THIRTEEN
(Wire Fraud)

INTRODUCTORY ALLEGATIONS

Relevant Persons and Entities

At all times relevant to this Indictment:

1. Defendant **NATHAN A. CHAPMAN, JR. (CHAPMAN)** was the Chairman of the Board, Chief Executive Officer, and majority shareholder of The Chapman Co., Chapman Capital Management, Inc., and *e*Chapman.com, later known as *e*Chapman, Inc. (*e*Chapman). Defendant **CHAPMAN** also was the Chief Investment Officer for Chapman Capital Management.

2. The Chapman Co. (TCC) was a Maryland corporation with its principal place of business located in the World Trade Center Tower at 401 East Pratt Street, Suite 2800, Baltimore, Maryland. TCC was a full service securities brokerage and investment banking company that provided market research and brokerage services to institutional and retail clients and also engaged in

corporate and government finance transactions. TCC became a wholly-owned direct subsidiary of Chapman Holdings, Inc., a newly-formed Maryland holding company, on December 29, 1997. Effective June 20, 2000, Chapman Holdings, Inc. was merged into *e*Chapman, a new Maryland corporation, and since that date TCC has been a wholly-owned indirect subsidiary of *e*Chapman.

3. Chapman Capital Management, Inc. (CCM) was a District of Columbia corporation incorporated in 1987 with its principal place of business located in the World Trade Center in Baltimore, Maryland. CCM was registered with the SEC as an investment adviser under the Investment Advisers Act of 1940. CCM also provided investment advisory services to corporate, institutional and individual investors. From its inception until February 26, 1998, CCM was a wholly-owned subsidiary of TCC. In February 1998, CCM was spun off from TCC to become a wholly-owned direct subsidiary of Chapman Capital Management Holdings, Inc. (CCM Holdings), a newly-formed Maryland holding company in which **CHAPMAN** was the sole stockholder. On June 20, 2000, CCM Holdings was merged into *e*Chapman and since that date CCM has been a wholly-owned indirect subsidiary of *e*Chapman.

4. *e*Chapman, Inc., which prior to January 2002 was known as *e*Chapman.com (*e*Chapman), was a Maryland corporation with its principal

place of business located in the World Trade Center in Baltimore, Maryland. *e*Chapman was originally incorporated on May 14, 1999. As noted above, *e*Chapman became the parent company of both TCC and CCM effective June 20, 2000.

5. The State Retirement and Pension System of Maryland (SRPSM, or "State Pension System") was a multiple-employer public employee retirement system that provided retirement allowances and other benefits to Maryland State employees, including teachers, police officers, judges, legislators, and employees of participating local governmental units. As of June 30, 2001, the State Pension System was responsible for managing pension funds on behalf of 42,514 inactive and deferred vested participants; 80,773 retirees and other beneficiaries; and 179,586 active plan participants. Under Maryland law, active plan participants were required to contribute between 2% and 8% of their earnable compensation to the various individual employee retirement systems that participated in the State Pension System.

6. The Maryland State Retirement Agency (MSRA) served as the administrator of the various individual employee pension plans that made up the State Pension System. The MSRA reported to and assisted the SRPSM's fourteen-member Board of Trustees, which was vested with the ultimate

responsibility for the State Pension System's operation and administration. The Trustees were responsible for reviewing the performance of the investment managers hired by the State Pension System and for determining whether to hire new managers, terminate existing managers, or modify the amount of pension funds allocated to particular managers for investment. As of June 30, 2001, the State Pension System's approximately $29.4 billion in assets were distributed among twenty-six equity (stock) managers and thirteen fixed income managers and real estate managers.

7. From in or about 1990 and continuing until November 1996, the Minority Equity Trust (MET) was a tax-exempt pooled unit trust for private and governmental employee benefit plans operated by Bankers Trust Company (Bankers Trust). Pension funds invested into the MET were commingled into a single collective pool of assets. Each client owned units in the Trust, which in turn owned shares in individual companies on behalf of its clients.

8. Under the MET concept, a number of individual minority and women investment managers served as sub-advisers to the Trust under the overall supervision of a more experienced primary investment adviser. This structure is sometimes known as a "Fund of Funds," in which the primary investment manager serves as a "Manager of Managers." Bankers Trust

marketed the MET to public and private pension plans as a means both of (a) affording clients broad investment diversification by offering one-stop access to a dozen or more individual financial managers with different investment styles and (b) supporting the development of minority and women investment managers.

9. On November 1, 1996, **CHAPMAN**, acting on behalf of CCM, purchased the MET from Bankers Trust and renamed it the DEM-MET (Domestic Emerging Markets – Minority Equity Trust) Fund of the DEM-MET Group Trust for Employee Benefit Plans (the "DEM-MET" or "the Trust"). When CCM acquired the MET, the State Pension System was already one of the MET's investment clients, and Maryland State pension funds then accounted for approximately 61% of the MET's total assets. Pursuant to an agreement executed on December 1, 1996 (the "management agreement"), the State Pension System, acting through the MSRA, allowed CCM to replace Bankers Trust as the primary investment adviser for the MET. CCM thus became responsible for managing approximately $90 million in State Pension System assets previously invested into the MET.

10. Under the management agreement between CCM and the State Pension System, from late 1996 until May 1, 2001, CCM received an annual fee

of .75% of the total market value of the State Pension System's assets in the DEM-MET. CCM's fee was reduced to .70% on May 1, 2001. CCM received approximately $6.8 million in management fees from the State Pension System between fiscal years 1997-2001. CCM in turn paid monthly fees to the DEM-MET's sub-advisers of between 0.35% and 0.45% of the amount of funds they were managing on the DEM-MET's behalf.

11. CCM received additional allocations of funds from the State Pension System in January 1998 ($40 million) and February 1999 ($10 million). By early 2002, the State Pension System accounted for nearly 83% of the DEM-MET's total assets, with the Bankers Trust Company Pension Plan accounting for the remainder. The State Pension System terminated CCM as an equity manager in January 2002. The State Pension System and Bankers Trust then withdrew their funds from the DEM-MET, and CCM liquidated the Trust on February 5, 2002.

12. After CCM acquired the MET in late 1996, **CHAPMAN** served as the primary investment manager for the DEM-MET. As primary investment manager, **CHAPMAN** was responsible for supervising the investment managers who acted as sub-advisers or sub-managers to the DEM-MET. Under the Investment Advisory Agreement that each sub-manager concluded with CCM,

CHAPMAN and CCM were responsible for reviewing and monitoring the performance of the Trust's sub-advisers on an ongoing basis. **CHAPMAN**'s and CCM's responsibilities included determining whether to retain existing sub-advisers or to replace them with new managers based on their investment performance, and determining whether to increase or reduce the existing allocations of client funds allotted to the various sub-advisers. The DEM-MET's individual sub-advisers determined how to invest the assets they were allocated, although the sub-managers were required either to make their investments in companies that were on a list previously approved by CCM or to obtain CCM's permission before purchasing shares in companies that were not on the approved list.

13. CCM's DEM-MET Information and Procedures Manual further limited the sub-advisers' freedom in selecting particular stocks for their DEM-MET portfolios. Among other things, it required that:

- sub-advisers were to keep concentrations of individual stocks at less than 5% of their total portfolio at time of purchase;

- sub-advisers were not allowed to invest in any stocks for which liquidity (the ability to sell shares) was limited by either the size of the company or because insiders owned more than 50% of the company's total shares; and

- sub-advisers were to "emphasize the security of principal in making all security selections."

14. Tremont Partners, Inc. (Tremont), a financial advisory firm with offices in Rye, New York, assisted CCM and **CHAPMAN** in evaluating the performance of the Trust's sub-advisers. Catherine Sweeney, a Senior Vice-President at Tremont, was responsible for providing CCM and **CHAPMAN** with data relating to the investment performance of the Trust's various sub-advisers. Tremont resigned its position as the outside consultant to the DEM-MET in November 2001.

15. From in or about September 1991 until in or about December 1998, Alan B. Bond (Bond) served as the President, Chief Investment Officer, and part owner of Bond Procope Capital Management ("Bond Procope"), a partnership that was registered with the SEC as an investment adviser under Section 203 of the Investment Advisers Act of 1940. Bond Procope's offices were located in New York City. In or about December 1998, Bond's partners in Bond Procope learned that he was under investigation by the SEC in connection with an alleged kickback scheme. They withdrew from further participation in the firm, and the Bond Procope partnership was dissolved.

16. Bond then formed Albriond Capital Management, LLC ("Albriond"), a company in which he was the sole shareholder. Albriond took

over the offices of Bond Procope and succeeded to the management of Bond Procope's investment portfolio, including the assets held for the DEM-MET. Albriond was likewise registered with the SEC as an investment adviser under Section 203 of the Investment Advisers Act of 1940. From in or about December 1998 through August 2001, Bond was the President, Chief Investment Officer, and Managing Member of Albriond. As Chief Investment Officer of Bond Procope and later of Albriond, Bond had the principal responsibility for making investment and trading decisions on behalf of the clients of these firms.

17. In January 1997, **CHAPMAN** and CCM engaged Bond Procope as a sub-adviser to the DEM-MET. Both Bond Procope and its successor firm concluded Investment Advisory Agreements with CCM and were subject to the investment guidelines and restrictions incorporated into those agreements.

18. Between January 1997 and August 2001, **CHAPMAN** and CCM entrusted first Bond Procope and later Albriond with the management of millions of dollars of assets of the State Pension System and the other pension systems that were invested in the DEM-MET, as shown by the following table:

January 1997	$10 million
January 1998	$ 5 million
July 1998	$ 2 million
February 1999	$ 6 million

July 2000	$10 million
Total:	$33 million

CHAPMAN's and CCM's Fiduciary and Contractual Obligations to the State Pension System

19. Under the State Pension System's management agreement with CCM and the DEM-MET's own Confidential Offering Brochure and Fund Description, CCM was a "fiduciary" with respect to the state pension plan, as that term was defined in the federal Employee Retirement Income Security Act of 1974 (ERISA). CCM was therefore subject to the general fiduciary duties imposed by the ERISA statute and its accompanying regulations. The Investment Advisory Agreements that CCM concluded with each of its sub-advisers, including Bond Procope and Albriond, likewise provided that the sub-advisers must comply with all provisions of both ERISA and the federal securities laws.

20. Under both ERISA and the article of the Maryland State Code dealing with State Personnel and Pensions, fiduciaries of a pension plan are subject to various legal duties. The duty of loyalty requires a fiduciary to discharge his or her duties with respect to a plan solely in the interest of the participants and beneficiaries, and for the exclusive purposes of providing

benefits to participants and beneficiaries and of defraying the reasonable expenses of administering the plan. The duty of prudence requires fiduciaries to act in respect to a plan with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of a similar enterprise. The duty to diversify requires fiduciaries to distribute a plan's investments so as to minimize the risk of large losses. Fiduciaries are also required to discharge their duties with regard to a plan in accordance with the documents and instruments governing the plan, and they are prohibited under both federal and state pension law from self-dealing.

21. ERISA further defines a "fiduciary" to include any person who exercises any authority or control with respect to the management or disposition of plan assets. Accordingly, **CHAPMAN** and the individual sub-advisers to the DEM-MET Trust, including Alan Bond and the Bond Procope and Albriond firms, were likewise fiduciaries with respect to the management or disposition of pension plan assets.

The TCC/Chapman Holdings Initial Public Offering (February 1998)

22. **CHAPMAN** owned almost all of the outstanding stock of both TCC and CCM from the formation of each company until February 1998 and

August 1998 respectively. In the latter part of 1997, **CHAPMAN** began exploring ways of raising additional capital to finance the operations of TCC and CCM. **CHAPMAN** decided to spin CCM off from TCC, of which it previously had been a wholly-owned subsidiary, thus creating two separate operating companies (TCC and CCM), which were owned by new holding companies. He then planned to offer a portion of the stock of each holding company for sale to the investing public through an initial public offering (IPO). However, **CHAPMAN** still planned to retain control of both companies through his continued ownership of a substantial majority of their outstanding shares of stock.

23. On December 29, 1997, TCC became a wholly-owned subsidiary of Chapman Holdings, Inc. (Chapman Holdings), a newly formed Maryland holding corporation. On February 26, 1998, immediately prior to the initial public offering of TCC's stock, CCM was spun off from TCC to become a subsidiary of another new Maryland holding company, Chapman Capital Management Holdings, Inc. (CCM Holdings), of which **CHAPMAN** owned all but a handful of the authorized stock. The Chapman Holdings IPO resulted in the sale of 964,387 shares of its stock at the offering price of $8.00 per share, resulting in net proceeds to the company of approximately $6.875 million.

Following the IPO, **CHAPMAN** still controlled almost 62% of the outstanding common stock of Chapman Holdings.

24. **CHAPMAN** began marketing the Chapman Holdings IPO to prospective purchasers in the latter part of 1997 and the first part of 1998. Among those whom **CHAPMAN** urged to buy Chapman Holdings stock was Alan Bond. Bond was reluctant to invest in Chapman Holdings. When **CHAPMAN** continued pressing Bond to make a large commitment with respect to purchasing shares in the Chapman Holdings IPO, Bond asked **CHAPMAN** whether he could place Chapman Holdings shares in his DEM-MET portfolio. Although Chapman Holdings was not on CCM's list of securities approved for purchase by DEM-MET sub-managers and it did not meet the investment standards set forth in the DEM-MET Information and Procedures Manual, **CHAPMAN** authorized Bond to use DEM-MET funds to purchase Chapman Holdings stock.

25. In early January 1998, **CHAPMAN** allocated another $5 million in DEM-MET pension funds to Bond Procope to invest. After receiving the additional $5 million and after further pressure by **CHAPMAN**, on February 26, 1998 Bond used $560,000 in DEM-MET funds to purchase 70,000 shares of Chapman Holdings stock at $8.00 per share as part of the Chapman Holdings

IPO.

The Chapman Capital Management Holdings
Initial Public Offering (August 1998)

26. On May 5, 1998, CCM Holdings, the parent company of CCM, filed a registration (disclosure) statement with the SEC announcing its intention to offer a portion of its outstanding common stock for sale to the public through an IPO. This registration statement became effective (i.e., was approved by the SEC as complying with the applicable legal requirements) on June 30, 1998, and the CCM Holdings IPO "opened" (meaning that the stock became available for purchase by underwriters) on August 14, 1998. CCM Holdings sold 864,791 of its shares at an offering price of $7.00 per share and received net proceeds of $5,246,000. After the IPO, **CHAPMAN** still retained majority control of CCM Holdings (and therefore of CCM) through his ownership of approximately 68% of its outstanding common stock.

The Creation of *e*Chapman.com
(May 1999 - November 1999)

27. In the spring of 1999, **CHAPMAN** took note of the growing public interest in the Internet and decided to create another company that would offer on-line trading and other on-line financial services. *e*Chapman, a

privately-held Maryland corporation, was incorporated on May 14, 1999, with **CHAPMAN** as the principal and controlling shareholder. **CHAPMAN** now planned to once again reunite TCC and CCM by merging their parent holding companies into *e*Chapman, thus making both operating companies indirect wholly-owned subsidiaries of *e*Chapman. Under the plan of merger that was ultimately implemented, existing shareholders of Chapman Holdings and CCM Holdings would each receive roughly two shares of *e*Chapman stock in exchange for their shares in the existing holding companies.

28. The planned merger and stock offering were structured to give **CHAPMAN** ownership of approximately 65% of *e*Chapman's stock following the IPO. Thus, if the IPO were fully subscribed and the stock price of *e*Chapman increased after public trading began in the secondary market, **CHAPMAN**'s personal wealth would be significantly enhanced and his ability to pay off his existing debts to TCC, Chapman Holdings, and CCM would have been facilitated. Conversely, if the IPO were not successful, the potential value of **CHAPMAN**'s stock holdings would be greatly reduced.

29. On November 15, 1999, *e*Chapman filed a registration statement with the SEC announcing that it intended to hold an initial public offering of 3,333,333 shares of its common stock at a price of between $14 and $16 per

share. The prospectus for the *e*Chapman IPO stated that an investment in the company should be considered "speculative and risky," because, among other things, the company had carried out minimal business since it was incorporated; it had not finished designing and developing its proposed web site; it had no Internet-based operating history that potential investors could evaluate; and it had no agreements with advertisers, content providers, or strategic partners in connection with the operation of its web-site. Finally, the prospectus acknowledged that the merged companies (Chapman Holdings and CCM Holdings) had a history of operating losses, and the new company was expected "to continue to incur significant losses for the foreseeable future."

Alan Bond's First Indictment on
Federal Fraud Charges (December 1999)

30. On December 16, 1999, Alan Bond was indicted by a federal Grand Jury in the Southern District of New York on charges of conspiracy, investment advisory fraud, wire fraud, commercial bribery, and making false statements to the SEC in connection with an alleged kickback scheme involving a securities broker who had executed trades on behalf of Bond's clients.

31. Many of Bond's clients fired him as their investment adviser after rumors of the criminal investigation began to circulate or after the indictment itself was returned. Albriond's total funds under management declined from approximately $652 million at the end of June 1999 to $170 million one year later (of which $39 million, or almost one-quarter, consisted of DEM-MET funds).

32. In December 1999, Catherine Sweeney, the DEM-MET's consultant at Tremont, advised **CHAPMAN** in a telephone conversation and in two letters on December 28, 1999 and again on January 19, 2000 that she believed that Albriond should be terminated as a sub-adviser for the Trust. **CHAPMAN** rejected Sweeney's advice and refused to terminate Albriond as a sub-manager for the DEM-MET. **CHAPMAN** faxed a copy of one of Sweeney's letters to Bond, but assured him that he would continue to stand by

him in spite of Sweeney's advice. Around this time, **CHAPMAN** also advised Bond that he might ultimately need him to commit to purchase a quantity of stock in a planned IPO for *e*Chapman.com.

The *e*Chapman Initial Public Offering
(November 1999 - June 2000)

33. In late December 1999 and January 2000, **CHAPMAN** held presentations in a number of cities in an effort to interest institutional investors (such as brokerage firms and investment managers) in purchasing stock in the *e*Chapman IPO. But the level of interest among institutional investors -- who alone could move the large amounts of stock necessary to make the contemplated offering successful -- fell far below **CHAPMAN**'s expectations.

34. Because of the lower-than-expected level of investor interest, the *e*Chapman IPO was postponed several times and the size of the projected offering was substantially reduced: first from 3,333,333 shares to 1.7 million shares in late May 2000, and then to 1.26 million shares shortly before the IPO finally opened on June 15, 2000. The anticipated price of the offering was likewise reduced, from a projected range of $14 to $16 per share in November 1999 to a final offering price of $13.00 per share in June 2000.

35. Even with a reduced offering size and a lower share price, **CHAPMAN** still found it difficult to line up sufficient purchase commitments to ensure that the IPO would be fully subscribed by its June 15, 2000 opening date (the date when the issuer's stock is made available for purchase by the investment banks who are underwriting the offering). **CHAPMAN** was

struggling to line up underwriting commitments from other investment banks as late as June 14, 2000. Three of the investment banks listed as underwriters on the final *e*Chapman prospectus – Doley Securities (75,000 shares), M.R. Beal & Co. (75,000 shares), and Pryor & Co., LLC (75,000 shares) – never in fact agreed to participate as underwriters in the offering and refused to accept the indicated number of shares. The other four investment banks listed as underwriters on the final *e*Chapman prospectus requested only a fraction of the shares to which they had previously committed.

36. Faced with the possibility of a disastrous opening for the *e*Chapman IPO, **CHAPMAN** redoubled his efforts to place shares of *e*Chapman stock with CCM's own clients. **CHAPMAN** solicited at least five DEM-MET sub-advisers to purchase stock in the *e*Chapman IPO. Three sub-advisers – MDL Capital Management, NCM Capital Management, and Valenzuela Capital Partners – purchased small quantities of *e*Chapman stock for their own proprietary accounts or those of certain of their clients.

37. Under pressure from **CHAPMAN**, another DEM-MET sub-adviser, Zevenbergen Capital, agreed to increase the size of its proposed purchase of *e*Chapman stock from 5,000 to 20,000 shares. However, because Zevenbergen's Principal Investment Officer believed that none of her firm's

other clients would be willing to accept the *e*Chapman stock in their portfolios, she asked **CHAPMAN** whether she could place the *e*Chapman stock in Zevenbergen's DEM-MET portfolio. **CHAPMAN** authorized her to do so. Following its purchase of the 20,000 shares when *e*Chapman's IPO opened on June 15, Zevenbergen sold its *e*Chapman stock in two lots on June 20 and July 28, 2000, suffering a loss to its DEM-MET portfolio of $115,223.85 in little more than a month.

38. **CHAPMAN** initially did not pressure Alan Bond to commit to purchasing a substantial number of shares in the *e*Chapman IPO. Instead, **CHAPMAN** advised Bond that he would keep him in reserve and would tell him how many shares he needed Albriond to buy closer to the opening date of the IPO.

39. On or about the opening date of the *e*Chapman IPO on June 15, 2000, **CHAPMAN** advised Bond that he needed him to purchase 200,000 shares – nearly one-sixth of the entire offering -- at a total cost of $2.6 million. When Bond objected that he could not place the *e*Chapman stock with any of his other remaining clients, **CHAPMAN** authorized him to place it in the DEM-MET portfolio, even though the *e*Chapman stock was an unacceptable investment for the Trust under the provisions of CCM's DEM-MET Information

and Procedures Manual.

40. But even after Bond agreed to purchase 200,000 shares of *e*Chapman stock, **CHAPMAN** still could not find purchasers for all of the 1.26 million offered shares. In the months leading up to the IPO, **CHAPMAN** had asked a money manager who owned a small investment firm named International Management Associates (IMA) in Atlanta, Georgia to participate. Although IMA's investment manager never gave **CHAPMAN** a firm commitment on his participation, when the IPO opened on June 15, **CHAPMAN** nevertheless transferred 130,000 shares of *e*Chapman stock to a TCC account established in the name of IMA. **CHAPMAN** then demanded that IMA pay *e*Chapman $1.69 million. The investment manager responded that he had not authorized the transaction and refused to pay for the shares. Over the next eleven days, **CHAPMAN** repeatedly telephoned the manager in an effort to convince him to take the 130,000 shares. The manager continued to maintain that he had never authorized the purchase, but the shares remained in IMA's TCC account until June 26.

41. An IPO "closes" when all of the issued stock has been accepted by the underwriters or other purchasers and payment for the shares has been received by the issuing company. The issuing company then notifies the

national exchange or association on which its stock is listed that the offering is fully subscribed. This allows trading to open on the "secondary market" -- the open, public market in which investors may freely purchase or sell shares of the issuing company and the company's stock price then rises or falls to reflect the level of investor demand for its stock. The *e*Chapman IPO "closed" and public trading in the stock commenced on the morning of June 20, 2000. On the first day of public trading in the secondary market, *e*Chapman opened on the NASDAQ Market at 9-19/64 a share, falling almost $4.00 from the $13.00 IPO offering price. By the end of the trading day on June 20, *e*Chapman was selling at 7-3/8 – down 43% from the original offering price. The initial 200,000 shares of *e*Chapman stock in Albriond's DEM-MET portfolio thus lost nearly $1.2 million in value in a single day.

42. Moreover, even after the *e*Chapman IPO "closed" and public trading began, the *e*Chapman IPO was still not fully subscribed. In addition to the 130,000 shares that IMA's investment manager maintained his firm had never agreed to accept, another 45,000 shares were returned to the *e*Chapman selling syndicate account as a result of cancellations, mistakes and rebills. Accordingly, on or about June 23 or 26, 2000, **CHAPMAN** contacted Bond and told him that he needed him to buy another 175,000 shares of *e*Chapman

because a large investor had backed out of a trade. When Bond protested that none of his other clients would accept the stock and that the combined holding of 375,000 shares would be too prominent a part of Albriond's DEM-MET portfolio, **CHAPMAN** advised Bond that he planned to make additional DEM-MET funds available to him in the near future, thereby reducing the relative size of the *e*Chapman holding in Albriond's DEM-MET portfolio. **CHAPMAN** further assured Bond that he expected another large investor would soon be willing to purchase Bond's shares, so the *e*Chapman stock would not need to remain in Albriond's DEM-MET portfolio for more than a few weeks. Finally, **CHAPMAN** advised Bond that he would provide Albriond with $1.5 million in *e*Chapman IPO proceeds to manage on *e*Chapman's behalf, thereby allowing Albriond to earn additional advisory fees from so doing.

43. As a result of these inducements and representations by **CHAPMAN** and because of his growing dependence on retaining **CHAPMAN**'s DEM-MET business, Bond agreed to accept both the 45,000 share block and the 130,000 share block of *e*Chapman stock. **CHAPMAN** directed one of TCC's employees to transfer these 175,000 shares to Albriond's DEM-MET account on June 26, 2000 at the original IPO offering price of $13.00 a share (for a total cost to the DEM-MET and its pension fund clients of

another $2.275 million), rather than at the price of roughly $7.00 per share for which *e*Chapman stock was then selling on the public market. **CHAPMAN** gave instructions to make it appear that these trades had taken place "as of" June 15, 2000 at the $13.00 per share price. The transfer of these shares by TCC to Albriond, when completed on June 28, 2000, resulted in an immediate loss of approximately $1 million for the DEM-MET's pension fund clients.

44. In addition to the 375,000 shares of *e*Chapman stock that Albriond purchased for its DEM-MET portfolio during the second half of June 2000, the 70,000 shares of Chapman Holdings stock held by Albriond since February 1998 converted into 135,306 shares of *e*Chapman stock as a result of the merger of the underlying companies in connection with the IPO. Thus, by late June 2000, Albriond was holding in excess of 500,000 shares of *e*Chapman stock in its DEM-MET portfolio.

45. On or about July 24, 2000, **CHAPMAN** made an additional $10 million in DEM-MET funds available to Albriond from the account of another sub-adviser. At Albriond's advisory fee of 0.45%, the allocation of these funds could potentially generate an additional $45,000 annually in fee revenue for Albriond and Bond.

46. In connection with the purchase of *e*Chapman stock by Albriond,

CHAPMAN breached his fiduciary duties of loyalty, prudence, and diversification and failed to disclose the following material facts, among others, to the Trust, to the State Pension System, and to the DEM-MET's other clients:

- That *e*Chapman was not on CCM's list of securities approved for purchases by DEM-MET sub-managers.

- That *e*Chapman constituted an "unacceptable investment" pursuant to CCM's Information and Procedures Manual for the DEM-MET, because the ability to sell its shares readily was limited; because Albriond's purchases of *e*Chapman stock constituted more than 5% of its DEM-MET portfolio; and because *e*Chapman was a "speculative and risky" investment, according to its own prospectus.

- That Albriond had purchased the 45,000 and 130,000 share blocks of *e*Chapman stock at the IPO offering price of $13.00 a share nearly a week after the IPO closed and public trading began on the NASDAQ Market, where *e*Chapman stock was then valued at approximately $7 per share.

- That, in order to induce Bond to purchase the three blocks of *e*Chapman stock, **CHAPMAN** had given Bond $1.5 million in *e*Chapman offering proceeds to manage and had further assured Bond that **CHAPMAN** would soon give him additional DEM-MET funds to manage.

- That, absent the purchases of the *e*Chapman stock by Albriond, the *e*Chapman IPO would have been undersubscribed.

- That **CHAPMAN**, through his ownership of the majority of the shares of *e*Chapman.com, had a substantial personal financial interest in the purchase of these shares by Albriond on behalf of the DEM-MET.

CHAPMAN's Efforts to Artificially Support
the *e*Chapman Stock Price (June-November 2000)

47. On or about June 20, 2000, **CHAPMAN** notified NASDAQ that TCC was entering a stabilizing bid for the *e*Chapman.com stock at $7.25 per share. Officially, this stabilizing bid was maintained only until July 14, 2000, when **CHAPMAN** notified NASDAQ that TCC had withdrawn the stabilizing bid. In fact, however, **CHAPMAN** continued his efforts to artificially stabilize *e*Chapman's stock price without making a public disclosure of this until November 29, 2000, when the IPO proceeds were largely exhausted.

48. **CHAPMAN** employed various means to artificially support *e*Chapman's stock price during the late summer and fall of 2000 and thereafter. Until November 29, 2000, TCC continued making large purchases of *e*Chapman stock at a set price using the proceeds obtained during the *e*Chapman IPO. TCC brokers also were instructed to discourage individual clients who wanted to sell their *e*Chapman stock from doing so.

49. When **CHAPMAN** discontinued his efforts to prop up *e*Chapman's stock price by buying back its stock with the IPO proceeds on November 29, 2000, its stock price fell within two days from $6.88 to $3.91 – a 43% drop. This decline reduced the value of Albriond's holdings of *e*Chapman stock in its DEM-MET portfolio by another $1 million. By late December,

*e*Chapman was trading at less than $3.00 a share, and it traded above that level only infrequently thereafter.

Bond's Purchases of an Additional 90,000
Shares of *e*Chapman Stock (May 2001)

50. In early March 2001, a net capital deficiency at TCC required **CHAPMAN** to ask Bond to return the *e*Chapman proprietary funds he had transferred to Albriond to manage after Bond agreed to accept the additional 175,000 shares of *e*Chapman stock for his DEM-MET portfolio in late June 2000. By that time, trading losses had reduced the principal in the account to $604,728.20. Although the value of Albriond's DEM-MET portfolio had fallen from a high of $46.8 million at the end of September 2000 to $19.75 million by the end of March 2001, **CHAPMAN** did not move to terminate Albriond as a sub-adviser to the Trust, or even to reallocate some portion of its remaining DEM-MET funds to other sub-advisers.

51. In or about early May 2001, **CHAPMAN** called Bond and asked him to make additional purchases of *e*Chapman stock using DEM-MET funds. **CHAPMAN** instructed Bond to buy the stock in blocks over a period of several weeks through the Ferris Baker Watts brokerage, rather than in a single purchase.

52. Pursuant to **CHAPMAN**'s directions, between May 9, 2001 and May 24, 2001 Bond made the following additional purchases of *e*Chapman stock using DEM-MET funds:

May 9, 2001	10,000 shares at $2.51 per share = $ 25,100
May 10, 2001	10,000 shares at $2.51 per share = $ 25,100
May 11, 2001	10,000 shares at $2.41 per share = $ 24,100
May 14, 2001	10,000 shares at $2.41 per share = $ 24,100
May 15, 2001	10,000 shares at $2.41 per share = $ 24,100
May 21, 2001	20,000 shares at $2.61 per share = $ 52,200
May 24, 2001	20,000 shares at $2.65 per share = $ 53,000

By May 24, Bond had purchased another 90,000 shares of *e*Chapman stock for Albriond's DEM-MET portfolio at a total cost of $227,700.00, thereby increasing Albriond's total holdings of *e*Chapman stock to more than 600,000 shares.

Bond's Second Federal Indictment,
CHAPMAN's Termination as a Money Manager by the State Pension System,
and the Ultimate Disposition of the DEM-MET's *e*Chapman Stock

53. Over the first six months of 2001, Albriond's DEM-MET portfolio lost 55.44%, a showing that was more than 30 percentage points worse than the performance of any other DEM-MET sub-adviser. Nevertheless, **CHAPMAN** did not terminate Albriond as a sub-adviser or reallocate any of its funds.

54. On August 9, 2001, Bond was indicted for a second time by a federal Grand Jury in the Southern District of New York on charges of investment advisory fraud, mail fraud, and false statements on forms required by the SEC. This indictment specifically charged that the DEM-MET was one of three clients Bond had defrauded. When the news of Bond's second indictment became public, **CHAPMAN** terminated Albriond as a DEM-MET sub-adviser.

55. After Bond was terminated as a sub-advisor, **CHAPMAN** transferred his DEM-MET portfolio, including the *e*Chapman shares, to another sub-adviser, Valenzuela Capital Partners. At the time of its termination, Albriond's DEM-MET portfolio contained 600,306 shares of *e*Chapman stock, which was then valued at $2.05 per share. Valenzuela managed to sell 31,000 shares of *e*Chapman stock for $2.02 per share in October 2002, but its efforts to

dispose of additional shares were unsuccessful.

56. In January 2002, the Board of Trustees of the State Pension System voted to terminate **CHAPMAN** as an investment manager and to withdraw the System's funds from the DEM-MET. Bankers Trust likewise withdrew its pension plan funds, forcing **CHAPMAN** to liquidate the DEM-MET on February 5, 2002. The remaining 569,306 shares of *e*Chapman stock that Albriond had purchased with DEM-MET funds were subsequently liquidated at prices between $0.49 and $0.10 per share. The overall loss to the DEM-MET was $5.652 million, of which $4.724 million was allocated to the State Pension System.

THE SCHEME AND ARTIFICE TO DEFRAUD

57. From in or about January 1998 until in or about February 2002, in the State and District of Maryland, the defendant

NATHAN A. CHAPMAN, JR.,

together with other co-schemers known and unknown to the Grand Jury, did knowingly and willfully devise and intend to devise a scheme and artifice to defraud the State Pension System and the other clients of the DEM-MET of their right to the honest and faithful services of **CHAPMAN**, CCM, Alan Bond, and Albriond in their capacity as fiduciaries, and to obtain money and property

of the State Pension System and other clients of the DEM-MET ("the scheme to defraud").

MANNER AND MEANS OF THE SCHEME AND ARTIFICE TO DEFRAUD

58. Among the manner and means by which **CHAPMAN** and his co-schemers carried out the scheme to defraud were the following:

A. In violation of federal securities law and in breach of his fiduciary duties, **CHAPMAN** used CCM's position as the Investment Manager for the DEM-MET, and the leverage he wielded over the sub-advisers to the Trust, to advance his own personal interests and those of his companies at the expense of the State Pension System and the other clients of the DEM-MET.

B. **CHAPMAN** advised the State Pension System and the other clients of the DEM-MET that their funds would be responsibly invested, whereas **CHAPMAN** in fact used CCM's position as Investment Manager for the DEM-MET to "authorize" purchases of stock in his companies, despite the fact that they constituted unacceptable investments under the very standards adopted by CCM for the DEM-MET.

C. **CHAPMAN** employed various means to defraud the State Pension System and other clients of the DEM-MET of their right to the honest

and faithful services of himself, CCM, Alan Bond, and Albriond, including:

(1) retaining Bond as a sub-adviser to the DEM-MET after Bond was first indicted on federal fraud charges in December 1999, and further notifying Bond that **CHAPMAN** had rejected Tremont's advice to terminate Bond as a sub-adviser to the Trust. **CHAPMAN** thereby placed Bond in his debt at a time when **CHAPMAN** was already trying to market the *e*Chapman IPO;

(2) providing Bond with additional allocations of DEM-MET funds in January 1998 ($5 million) and July 2000 ($10 million) so that (a) Bond's holdings in Chapman's companies would not be as prominent a part of his DEM-MET portfolio and (b) Bond could earn increased income from advisory fees in return for his purchases of large blocks of stock in the Chapman companies' IPOs; and

(3) providing Bond with $1.5 million in proceeds from the *e*Chapman IPO to manage so that Bond could obtain additional income from advisory fees at a time when most of his other clients had deserted him.

D. **CHAPMAN** further discouraged Bond from selling the stock he had acquired for the DEM-MET in Chapman Holdings and *e*Chapman, even though the "sell discipline" Bond normally followed would have required him to

sell his holdings in both companies when their share price declined by more than a certain percentage from their purchase price.

E. **CHAPMAN** did not seek advance authorization from the State Pension System and the other clients of the DEM-MET before "authorizing" Albriond and Zevenbergen to purchase shares of his companies' stock using DEM-MET funds. Nor did he disclose to the State Pension System and the other clients of the DEM-MET that he had solicited other sub-advisers to participate in the *e*Chapman IPO, and that three sub-advisers had done so using the funds of non-DEM-MET clients.

F. **CHAPMAN** made no affirmative disclosure to the State Pension System or to any of the other clients of the DEM-MET of the risky and speculative nature of the DEM-MET's investment in *e*Chapman stock, and he did not disclose any of the other facts cited in paragraph 46 above.

G. **CHAPMAN** caused the order tickets for Bond's purchases of the 130,000 and 45,000 share lots of *e*Chapman stock on June 26, 2000 to be backdated so that the documentation related to these trades falsely reflected a "trade date" for these transactions of June 15, 2000 and a "settlement date" for these transactions of June 20, 2000.

H. Between July 15 and November 29, 2000, **CHAPMAN**

continued to orchestrate an effort to artificially stabilize the share price of *e*Chapman stock by expending millions of dollars of IPO proceeds in buying back the company's stock, without disclosing this effort to NASDAQ or to the other shareholders of *e*Chapman.

THE CHARGES

59. On or about the dates set forth below, in the District of Maryland, the defendant,

NATHAN A. CHAPMAN, JR.,

for the purpose of executing and attempting to execute the aforesaid scheme to defraud, did transmit and cause to be transmitted by means of wire communication in interstate commerce writings, signs, signals, and sounds, namely, the wire transmissions set forth below:

COUNT	DATE	DESCRIPTION OF WIRE TRANSMISSION
1	6/15/2000	Wire Transmission from The Chapman Company (Baltimore, Maryland) to Pershing LLC (Jersey City, New Jersey) concerning purchase by Albriond Capital Management/DEM-MET account of 200,000 shares of *e*Chapman.com stock @ $13/share for a total price of $2.6 million
2	6/26/2000	Wire Transmission from Pershing LLC (Jersey City, New Jersey) to The Chapman Company (Baltimore, Maryland) concerning transfer of 45,000 shares of *e*Chapman.com stock at a total cost of $585,000.00 to Albriond/DEM-MET account

3	6/26/2000	Facsimile Transmission from Albriond Capital Management (New York, New York) to "Nate Chapman," The Chapman Company (Baltimore, Maryland), consisting of a letter from the Chief Operating Officer, Albriond Capital Management, to Nathan Chapman, The Chapman Company, The World Trade Center, 401 East Pratt Street, 28th Floor, Baltimore, Maryland 21202, dated June 26, 2000, and two unexecuted Investment Advisory Agreements for an investment account in the name of *e*Chapman.com
4	6/27/2000	Wire Transmission from Pershing LLC (Jersey City, New Jersey) to The Chapman Company (Baltimore, Maryland) concerning purchase by Albriond Capital Management/DEM-MET account of 130,000 shares of *e*Chapman.com stock @ $13/share
5	6/27/2000	Wire Transmission from *e*Chapman.com (Baltimore, Maryland) to PFPC (Philadelphia, Pennsylvania) concerning transfer of $1.5 million in *e*Chapman proprietary funds to account of Albriond Capital Management
6	6/28/2000	Wire Transmission from The Chapman Company (Baltimore, Maryland) to Pershing LLC (Jersey City, New Jersey) concerning purchase by Albriond Capital Management/DEM-MET account of 130,000 shares of *e*Chapman.com stock
7	5/4/2001	Wire Transmission from The Chapman Company (Baltimore, Maryland) to Pershing LLC (Jersey City, New Jersey) concerning purchase by Albriond Capital Management/DEM-MET account of 10,000 shares of *e*Chapman.com stock

8	5/7/2001	Wire Transmission from The Chapman Company (Baltimore, Maryland) to Pershing LLC (Jersey City, New Jersey) concerning purchase by Albriond Capital Management/DEM-MET account of 10,000 shares of *e*Chapman.com stock
9	5/8/2001	Wire Transmission from The Chapman Company (Baltimore, Maryland) to Pershing LLC (Jersey City, New Jersey) concerning purchase by Albriond Capital Management/DEM-MET account of 10,000 shares of *e*Chapman.com stock
10	5/9/2001	Wire Transmission from The Chapman Company (Baltimore, Maryland) to Pershing LLC (Jersey City, New Jersey) concerning purchase by Albriond Capital Management/DEM-MET account of 10,000 shares of *e*Chapman.com stock
11	5/10/2001	Wire Transmission from The Chapman Company (Baltimore, Maryland) to Pershing LLC (Jersey City, New Jersey) concerning purchase by Albriond Capital Management/DEM-MET account of 10,000 shares of *e*Chapman.com stock
12	5/16/2001	Wire Transmission from The Chapman Company (Baltimore, Maryland) to Pershing LLC (Jersey City, New Jersey) concerning purchase by Albriond Capital Management/DEM-MET account of 20,000 shares of *e*Chapman.com stock
13	5/21/2001	Wire Transmission from The Chapman Company (Baltimore, Maryland) to Pershing LLC (Jersey City, New Jersey) concerning purchase by Albriond Capital Management/DEM-MET account of 20,000 shares of *e*Chapman.com stock

18 U.S.C. §§ 1343 & 1346
18 U.S.C. § 2

COUNTS FOURTEEN THROUGH SEVENTEEN
(Mail Fraud)

The Grand Jury further charges:

1. The allegations of paragraphs 1 through 58 of Counts One through Thirteen are realleged and reincorporated by reference as though fully set forth herein.

2. On or about the dates set forth in the counts below, in the District of Maryland , the defendant

NATHAN A. CHAPMAN, JR.,

for the purpose of executing the scheme and artifice to defraud and attempting to do so, did knowingly cause to be delivered by the Postal Service and by private or commercial interstate carrier according to the directions thereon the following mail matter, as set forth below:

COUNT	APPROXIMATE DELIVERY DATE OF MAILING	DESCRIPTION OF MAILING
14	June 17, 2000	Institutional trade confirmation concerning the purchase of 200,000 shares of *e*Chapman.com common stock for the account of Bond Procope (Albriond) mailed from a Pershing LLC office located in Mount Prospect, Illinois to the offices of The Chapman Company in Baltimore, Maryland

15	June 28, 2000	Institutional trade confirmation concerning the purchases of 45,000 and 130,000 shares of *e*Chapman.com common stock for the account of Bond Procope (Albriond) mailed from a Pershing LLC office located in Mount Prospect, Illinois to the offices of The Chapman Company in Baltimore, Maryland
16	June 27, 2000	Letter from the Chief Operating Officer, Albriond Capital Management, to Nathan Chapman, The Chapman Company, The World Trade Center, 401 East Pratt Street, 28th Floor, Baltimore, Maryland 21202, dated June 26, 2000, together with two unexecuted Investment Advisory Agreements for an investment account in the name of *e*Chapman.com
17	June 30, 2000	Letter from the Chief Operating Officer, Albriond Capital Management, to Nathan Chapman, The Chapman Company, The World Trade Center, 401 East Pratt Street, 28th Floor, Baltimore, Maryland 21202, dated June 29, 2000, together with an executed Investment Advisory Agreement for an investment account in the name of *e*Chapman.com

18 U.S.C. §§ 1341 & 1346
18 U.S.C. § 2

COUNT EIGHTEEN
(False Statements)

The Grand Jury for the District of Maryland further charges:

1. The allegations of paragraphs 1 through 58 of Counts One through Thirteen are realleged and incorporated by reference as though fully set forth herein.

2. In or about the second week of March, 2002, in the State and District of Maryland, in a matter within the jurisdiction of the United States Securities & Exchange Commission, an agency of the United States, the defendant,

NATHAN A. CHAPMAN, JR.,

knowingly and willfully made and caused to be made a materially false and fraudulent representation in a letter from Nathan A. Chapman, Jr., Chapman Capital Management, Inc., The World Trade Center, 401 East Pratt Street, 28th Floor, Baltimore, Maryland 21202, to Margaret Jackson, Branch Chief, U.S. Securities and Exchange Commission, Philadelphia District Office, 601 Walnut Street, Suite 1120 East, Philadelphia, Pennsylvania 19106-3322, to wit, a representation concerning the timing of Alan Bond's purchase of 175,000 shares of *e*Chapman stock at a price of $13.00 per share that he knew to be false.

18 U.S.C. § 1001
18 U.S.C. § 2

COUNTS NINETEEN THROUGH TWENTY-ONE
(Investment Advisory Fraud)

The Grand Jury for the District of Maryland further charges:

1. The allegations of paragraphs 1 through 58 of Counts One through Thirteen are realleged and incorporated by reference as though fully set forth herein.

2. As investment advisers registered with the SEC under the Investment Advisers Act of 1940, both CCM and Albriond and their officers and employees, including **CHAPMAN** and Alan Bond, owed fiduciary obligations of good faith, loyalty, and fair dealing to the clients who entrusted their money to CCM's and Albriond's management. As fiduciaries, CCM, Albriond and their respective officers and employees were required: (a) to act in the utmost good faith and in the best interests of their clients; (b) to make full and fair disclosure of all material facts bearing on the investment advisory relationship between CCM and Albriond and their respective clients; (c) to employ reasonable care to avoid misleading their clients; and (d) to refrain from self-dealing.

3. On or about the dates set forth below, in the State and District of Maryland, the defendant,

NATHAN A. CHAPMAN, JR.,

together with others known and unknown to the Grand Jury, unlawfully, willfully and knowingly did cause Chapman Capital Management, Inc. and Albriond Capital Management LLC, by use of the mails and of other means and instrumentalities of interstate commerce, directly and indirectly, to: (a) employ devices, schemes, and artifices to defraud the investment advisory clients set forth below; (b) engage in transactions, practices, and courses of business which operated as a fraud and deceit upon these clients; and (c) act as a principal for its own account and knowingly purchase and sell securities for a client without disclosing to the client in writing before the completion of the transaction the capacity in which it was acting, and obtaining the client's consent to the transaction:

COUNT	**CLIENT**	**TIME PERIOD OF FRAUDULENT CONDUCT**
19	State Retirement & Pension System of Maryland	June 2000 - January 2002
20	Bankers Trust Company Pension Plan	June 2000 - January 2002
21	Alliant Energy Corp.	June 2000 - May 2001

15 U.S.C. §§ 80b-6 & 80b-17
18 U.S.C. § 2

COUNTS TWENTY-TWO THROUGH TWENTY-FIVE
(Wire Fraud)

The Grand Jury for the District of Maryland further charges:

1. The allegations of paragraphs 1 through 58 of Counts One through Thirteen are realleged and incorporated by reference as though fully set forth herein.

2. **CHAPMAN** had a fiduciary obligation to TCC, its sole shareholder Chapman Holdings, and Chapman Holdings' minority shareholders to provide loyal, faithful, honest, and unbiased service and performance of his duties, free from deceit, dishonesty, fraud, willful omission, and other misconduct.

3. **CHAPMAN** had a fiduciary obligation to CCM, its sole shareholder CCM Holdings, and CCM Holdings' minority shareholders to provide loyal, faithful, honest, and unbiased service and performance of his duties, free from deceit, dishonesty, fraud, willful omission, and other misconduct.

4. **CHAPMAN** had a fiduciary obligation to *e*Chapman and its minority shareholders to provide loyal, faithful, honest, and unbiased service and performance of his duties, free from deceit, dishonesty, fraud, willful omission, and other misconduct.

5. **CHAPMAN** had a fiduciary obligation to Chapman On-Line and Chapman Network, which were subsidiaries of *e*Chapman, to provide loyal, faithful, honest, and unbiased service and performance of his duties, free from deceit, dishonesty, fraud, willful omission, and other misconduct.

THE SECOND SCHEME AND ARTIFICE TO DEFRAUD

6. From in or about January 1997 until in or about August 2002, in the District of Maryland and elsewhere, the defendant,

NATHAN A. CHAPMAN, JR.,

did knowingly and willfully devise and intend to devise a scheme and artifice to defraud, and for obtaining money and property by means of false and fraudulent pretenses ("the second scheme to defraud"), to wit, a scheme and artifice, among other things, to:

A. to obtain money, funds, and property owned by TCC, CCM, *e*Chapman, Chapman On-Line, and Chapman Network by means of false and fraudulent pretenses, representations, and promises; and

B. to deprive TCC, CCM, Chapman Holdings, CCM Holdings, and *e*Chapman of their right to the loyal, faithful, honest, and unbiased service and performance of **CHAPMAN**'s duties as an officer, director, and employee, free from deceit, dishonesty, fraud, willful omission, and other misconduct.

OBJECTS OF THE SECOND SCHEME AND ARTIFICE TO DEFRAUD

7. The objects of the second scheme and artifice to defraud included:

A. allowing **CHAPMAN** to receive greater financial compensation than had been authorized for him by the boards of directors of Chapman Holdings, CCM Holdings, and *e*Chapman;

B. allowing **CHAPMAN** to substantially supplement his annual income without paying either federal or state income taxes on the additional funds;

C. allowing **CHAPMAN** access to funds, other than through his regular personal checking account or through his personal credit cards, that could be used to pay for gifts, trips, and financial support for various women with whom **CHAPMAN** had personal relationships;

D. making it appear to the shareholders and prospective shareholders of Chapman Holdings, CCM Holdings, and *e*Chapman that **CHAPMAN** was accepting a relatively moderate salary at a time when these companies (and their wholly-owned subsidiaries) were experiencing substantial losses and were not paying dividends to their shareholders; and

E. making it appear to the shareholders and prospective

shareholders of Chapman Holdings, CCM Holdings, and *e*Chapman that these companies (and their wholly-owned subsidiaries) were spending more heavily on new and existing business development than was in fact the case.

MANNER AND MEANS OF THE SECOND SCHEME AND ARTIFICE TO DEFRAUD

8. It was a part of the second scheme and artifice to defraud that **CHAPMAN** obtained money from TCC, CCM, *e*Chapman, Chapman On-Line, and Chapman Network by fraudulently representing to employees who had check-writing authority for TCC, CCM, *e*Chapman, Chapman On-Line, and Chapman Network that he needed to have checks written to himself for travel expenses or business development purposes.

9. It was further a part of the second scheme and artifice to defraud that the checks received by **CHAPMAN** typically carried the notation "travel" on the memo line, up until in or about the latter part of 1998, when **CHAPMAN** began receiving checks that carried the notation "business development" on the memo line. Collectively, all of these checks will be referred to in this indictment as the "business development" checks.

10. It was further a part of the second scheme and artifice to defraud that **CHAPMAN** in fact typically charged his business-related expenses such as

hotel rooms, limousine service, and meals to an MBNA America Business Card credit card (account # xxxx-xxxxxxxx-7251) issued to him by TCC, and these expenses were then paid for by the company. For example, **CHAPMAN** incurred both personal and business-related charges of approximately $681,000 on his corporate credit card in the three-year period between 1999 and 2001 alone.

11. It was further a part of the second scheme and artifice to defraud that **CHAPMAN** cashed the business development checks and used them for purposes other than travel or legitimate business development expenses.

12. It was further a part of the second scheme and artifice to defraud that **CHAPMAN** provided "business development" checks to a female friend, who was a vice-president, and later senior vice-president, at CCM with whom **CHAPMAN** had a personal relationship.

13. It was further a part of the second scheme and artifice to defraud that, by means of these "travel" or "business development" checks, **CHAPMAN** obtained $518,145.00, more or less, from TCC, CCM, Chapman On-Line, *e*Chapman, and Chapman Network between January 1, 1997 and August 20, 2002.

14. As part of this aspect of **CHAPMAN**'s second scheme and

artifice to defraud, **CHAPMAN** used the funds obtained from these "business development" checks for such purposes as the following:

A. providing cash gifts and a regular stipend or allowance to a woman with whom **CHAPMAN** had a personal relationship. The cash benefits received by this woman from **CHAPMAN** between 1998 and 2002 totaled approximately $220,760.00, more or less;

B. providing $10,000 towards that woman's purchase of a 1997 Nissan Altima in November 1999, and $9,956.00 towards her purchase of a BMW motorcycle in October 2001; and

C. providing cash payments to Debra B. Humphries, a member of the Board of Trustees for the State Pension System with whom Chapman had a personal relationship.

15. It was further a part of the second scheme and artifice to defraud, and for obtaining money and property by means of false and fraudulent pretenses, that **CHAPMAN** did not notify or seek authorization from the boards of directors of Chapman Holdings, CCM Holdings and *e*Chapman for his personal use of the funds obtained by the means set forth in paragraphs 8-9 above.

16. It was further a part of the second scheme and artifice to defraud

that, for the purposes of covering up this wrongful and unauthorized diversion of funds from TCC, CCM, *e*Chapman, Chapman On-Line, and Chapman Network, **CHAPMAN** acted under false and fraudulent pretenses and made false and fraudulent representations to others with regard to these "business development" checks, including:

A. making material misstatements, and omitting material information, in connection with representations made to outside auditors who were charged with preparing the audited financial statements for TCC, CCM, *e*Chapman, Chapman Holdings, CCM Holdings, Chapman On-Line, and Chapman Network;

B. making material misrepresentations, and omitting material information, in connection with representations made to the shareholders of Chapman Holdings, CCM Holdings, and *e*Chapman;

C. making material misrepresentations, and omitting material information, in connection with information submitted to the SEC as part of required filings for Chapman Holdings, CCM Holdings, and *e*Chapman; and

D. falsely testifying in a deposition conducted by officials of the United States Securities and Exchange Commission (SEC) in July 2002 that the Board of Directors of one of his companies had authorized him to receive up to

$10,000.00 a month as an executive allowance that he was free to spend in any way that he saw fit.

USE OF INTERSTATE WIRES
IN FURTHERANCE OF THE SECOND SCHEME AND ARTIFICE TO DEFRAUD

17. On or about the dates set forth below, in the District of Maryland, the defendant,

NATHAN A. CHAPMAN, JR.,

for the purpose of executing and attempting to execute the second scheme and artifice to defraud, and for obtaining money and property by means of false and fraudulent pretenses, representations, or promises, would and did cause to be transmitted by means of wire communication in interstate commerce writings, signs, signals, and sounds, namely, the electronic transmissions set forth below:

COUNT	DATE	FROM/TO	DESCRIPTION
22	3/30/2000	Electronic transmission from a Chapman Holdings contractor in Hanover, Maryland to the United States Securities & Exchange Commission, Washington, DC	Chapman Holdings 1999 Form 10-K, in which **CHAPMAN's** board-authorized compensation for 1997 ($159,500 + $100,000 bonus), 1998 ($200,000 salary + $100,000 bonus) and 1999 ($266,667 salary + $100,000 bonus) was listed, but his additional income from travel and "business development" checks for 1997, 1998 and 1999 was not disclosed, and in which the amount spent on business development by Chapman Holdings was overstated by the inclusion of the "business development" checks
23	3/30/2000	Electronic transmission from a CCM Holdings contractor in Hanover, Maryland to the United States Securities & Exchange Commission, Washington, DC	CCM Holdings 1999 Form 10-K, in which **CHAPMAN's** board-authorized compensation for 1997 ($159,500 + $100,000 bonus), 1998 ($200,000 salary + $100,000 bonus) and 1999 ($266,667 salary + $100,000 bonus) was listed, but his additional income from "business development" checks for 1997, 1998 and 1999 was not disclosed, and in which the amount spent on travel and business development by CCM Holdings was overstated by the inclusion of the "business development" checks

24	6/15/2000	Electronic transmission from an *e*Chapman contractor in Hanover, Maryland to the United States Securities & Exchange Commission, Washington, DC	Prospectus for initial public offering of *e*Chapman.com, in which **CHAPMAN**'s board-authorized compensation for 1998 ($200,000 salary + $100,000 bonus) and 1999 ($266,667 salary + $100,000 bonus) was listed, but his additional income from business development checks for 1998 and 1999 was not disclosed, and in which the amount spent on travel and development costs by TCC and CCM was overstated by the inclusion of the "business development" checks
25	4/30/2002	Electronic transmission from an *e*Chapman contractor in Glen Burnie, Maryland to the United States Securities & Exchange Commission, Washington, DC	Proxy statement for 2002 annual meeting, in which **CHAPMAN's** board-authorized compensation for 1999 ($266,667 salary + $100,000 bonus), 2000 ($353,300 + $200,000 bonus), and 2001 ($320,158 salary) was listed, but his additional income from the "business development" checks for 1999, 2000 and 2001 was not disclosed

18 U.S.C. § 1343 & 1346
18 U.S.C. § 2

COUNT TWENTY-SIX
(False Statements on Income Tax Returns)

The Grand Jury for the District of Maryland further charges:

1. The allegations of paragraphs 1 through 58 of Counts One through Thirteen, and paragraphs 2 through 16 of Counts Twenty-Two through Twenty-Five, are realleged and incorporated by reference as though fully set forth herein.

2. On or about August 20, 1998, in the State and District of Maryland, the defendant,

NATHAN A. CHAPMAN, JR.,

a resident of Maryland, did willfully make and subscribe a false joint income tax return (Form 1040) for the year 1997, which was verified by a written declaration that it was made under penalty of perjury and was filed with the Internal Revenue Service, which tax return he did not believe to be true and correct as to every material matter, in that the said tax return reported taxable income for **CHAPMAN** and his spouse Valerie Chapman of $95,106.00, whereas, as the defendant then and there well knew and believed, his taxable income for calendar year 1997 was substantially in excess of the amount reported.

26 U.S.C. § 7206(1)
18 U.S.C. § 2

COUNT TWENTY-SEVEN
(False Statements on Income Tax Returns)

The Grand Jury for the District of Maryland further charges:

1. The allegations of paragraphs 1 through 58 of Counts One through Thirteen, and paragraphs 2 through 16 of Counts Twenty-Two through Twenty-Five, are realleged and incorporated by reference as though fully set forth herein.

2. On or about May 24, 1999, in the State and District of Maryland, the defendant,

NATHAN A. CHAPMAN, JR.,

a resident of Maryland, did willfully make and subscribe a false joint income tax return (Form 1040) for the year 1998, which was verified by a written declaration that it was made under penalty of perjury and was filed with the Internal Revenue Service, which tax return he did not believe to be true and correct as to every material matter, in that the said tax return reported taxable income of $159,555.00, whereas, as the defendant then and there well knew and believed, his taxable income for calendar year 1998 was substantially in excess of the amount reported.

26 U.S.C. § 7206(1)

18 U.S.C. § 2

COUNT TWENTY-EIGHT
(False Statements on Income Tax Returns)

The Grand Jury for the District of Maryland further charges:

1. The allegations of paragraphs 1 through 58 of Counts One through Thirteen, and paragraphs 2 through 16 of Counts Twenty-Two through Twenty-Five, are realleged and incorporated by reference as though fully set forth herein.

2. On or about May 1, 2000, in the State and District of Maryland, the defendant,

NATHAN A. CHAPMAN, JR.,

a resident of Maryland, did willfully make and subscribe a false joint income tax return (Form 1040) for the year 1999, which was verified by a written declaration that it was made under penalty of perjury and was filed with the Internal Revenue Service, which tax return he did not believe to be true and correct as to every material matter, in that the said tax return reported taxable income of $192,925.00, whereas, as the defendant then and there well knew and believed, his taxable income for calendar year 1999 was substantially in excess of the amount reported.

26 U.S.C. § 7206(1)

18 U.S.C. § 2

COUNT TWENTY-NINE
(False Statements on Income Tax Returns)

The Grand Jury for the District of Maryland further charges:

1. The allegations of paragraphs 1 through 58 of Counts One through Thirteen, and paragraphs 2 through 16 of Counts Twenty-Two through Twenty-Five, are realleged and incorporated by reference as though fully set forth herein.

2. On or about April 15, 2001, in the State and District of Maryland, the defendant,

NATHAN A. CHAPMAN, JR.,

a resident of Maryland, did willfully make and subscribe false individual income tax return (Form 1040) for the year 2000, which was verified by a written declaration that it was made under penalty of perjury and was filed with the Internal Revenue Service, which tax return he did not believe to be true and correct as to every material matter, in that the said tax return reported taxable income of $567,922.00, whereas, as the defendant then and there well knew and believed, his taxable income for calendar year 2000 was substantially in excess of the amount reported.

26 U.S.C. § 7206(1)
18 U.S.C. § 2

COUNT THIRTY
(False Statements on Income Tax Returns)

The Grand Jury for the District of Maryland further charges:

1. The allegations of paragraphs 1 through 58 of Counts One through Thirteen, and paragraphs 2 through 16 of Counts Twenty-Two through Twenty-Five, are realleged and incorporated by reference as though fully set forth herein.

2. On or about April 15, 2002, in the State and District of Maryland, the defendant,

NATHAN A. CHAPMAN, JR.,

a resident of Maryland, did willfully make and subscribe a false joint income tax return (Form 1040) for the year 2001, which was verified by a written declaration that it was made under penalty of perjury and was filed with the Internal Revenue Service, which tax return he did not believe to be true and correct as to every material matter, in that the said tax return reported taxable income of $203,621.00, whereas, as the defendant then and there well knew and believed, his taxable income for calendar year 2001 was substantially in excess of the amount reported.

26 U.S.C. § 7206(1)
18 U.S.C. § 2

COUNT THIRTY-ONE
(False Statements in Connection with a Loan Application)

The Grand Jury for the District of Maryland further charges that:

1. The allegations of paragraphs 1 through 3 of Counts One through Thirteen are realleged and incorporated by reference as though fully set forth herein.

2. In or about the latter part of July 1999, **CHAPMAN** and his wife Valerie Chapman contracted to purchase a house located at 13125 Brighton Dam Road, Clarksville, Maryland and an adjoining unimproved 5.99-acre lot (Lot #9). The agreed-upon purchase price of 13125 Brighton Dam Road and the adjoining lot was $1,150,000.00. **CHAPMAN** and his wife paid $20,000.00 as a deposit when they agreed to purchase the property.

3. **CHAPMAN** then approached loan officers at Sandy Spring National Bank ("the Bank") and applied for a mortgage on the subject property in the amount of 80% of the purchase price, or $920,000.00. Sandy Spring National Bank was a financial institution whose deposits were insured by the Federal Deposit Insurance Corporation (FDIC).

4. As part of the mortgage application process, **CHAPMAN** was required to fill out with the loan officers a Uniform Residential Loan Application (the "loan application"). Among other things, the loan application

required **CHAPMAN** to identify the source of the funds he planned to utilize to cover the down payment and settlement charges. On or about July 27 or 28, 1999, **CHAPMAN** advised the loan officers that he had raised the roughly $245,000 necessary to pay the balance of the down payment and the settlement charges by selling stock he owned in his company, and this information was recorded on the loan application. The Bank's loan officers asked **CHAPMAN** to provide them with documentary confirmation that he had raised the necessary funds for the down payment and settlement charges by this means.

5. In fact, **CHAPMAN** had not sold any stock in his company in order to raise the additional funds required to cover the down payment and settlement charges on the Brighton Dam Road residence. Instead, on July 29, 1999, **CHAPMAN** directed that $242,000 be transferred by wire from the Chapman U.S. Treasury Money Fund, a money market account (#740390000) owned by Chapman Capital Management Holdings, Inc., first to an account (#1046000) held by Chapman Capital Management Holdings, Inc., and then from that account the funds were transferred to **CHAPMAN**'s personal bank account (#16955629) at First National Bank in Baltimore, Maryland. **CHAPMAN** then used these funds to pay the down payment and settlement charges in connection with the purchase of the Brighton Dam Road residence

and real property.

6. To satisfy the Bank's request for documentary confirmation of his claim that he had raised the cash for the down payment and settlement charges by selling stock in his company, on July 29, 1999 **CHAPMAN** faxed or caused to be faxed to the Bank a document purporting to be a "Transaction Confirmation" for the sale of 39,525 shares of stock in Chapman Holdings, Inc. by Nathan A. Chapman, Jr. on July 23, 1999. This document was materially fraudulent, because **CHAPMAN** actually had not made any sales of Chapman Holdings stock during calendar year 1999, and the funds used for the down payment and settlement charges on the Brighton Dam Road residence were obtained directly from the accounts of CCM Holdings, as set forth above.

7. The loan application further required **CHAPMAN** and his wife to identify any other outstanding debts owed by them as of the time of their application. **CHAPMAN** and his wife identified only the $181,000 mortgage on their current residence and a $1,653 debt owed to Nieman Marcus. **CHAPMAN** did not disclose the following additional debts totaling $723,527.90 plus interest that he owed to TCC, Chapman Holdings, and CCM when he applied for this home mortgage loan:

DATE OF LOAN	LOAN AMOUNT	TERMS OF LOAN
2/11/1998	$176,250	Term note payable to The Chapman Company three years after date of issuance with annual interest of 5.54%
3/11/1998	$285,587.34	Demand note payable to Chapman Holdings, Inc. with annual interest of 5.45%
5/1/1998	$100,000.00	Term note payable to Chapman Holdings, Inc. three years after date of issuance with annual interest of 5.50%
7/1/1998	$45,000.00	Demand note payable to Chapman Capital Management, Inc. with annual interest of 5.48%
8/21/1998	$65,000.00	Term note payable to Chapman Capital Management, Inc. three years after date of issuance with annual interest of 5.48%
12/31/1998	$51,690.56	Term note payable to Chapman Holdings, Inc. three years after date of issuance with annual interest of 4.33%

8. On or about July 29, 1999, in the State and District of Maryland, the defendant,

NATHAN A. CHAPMAN, JR.,

knowingly made a material false statement or report for the purpose of

influencing the action of Sandy Spring National Bank, a financial institution whose deposits were insured by the Federal Deposit Insurance Corporation (FDIC), in connection with an application for a $920,000 mortgage loan pertaining to the purchase by **CHAPMAN** and his wife of a residence and real property located at 13125 Brighton Dam Road and the adjoining Lot #9, Clarksville, Maryland 21029, in that:

a. **CHAPMAN** falsely represented that he had sold 39,525 shares of stock in Chapman Holdings, Inc. to raise the $242,000 in additional funds necessary for the down payment and settlement charges, when in truth and in fact, as the defendant well knew, he had obtained these funds by taking them from one of the accounts of Chapman Capital Management Holdings, Inc.; and

b. **CHAPMAN** falsely represented that his only debts were the identified mortgage of $181,000 on his and his wife's current residence and the $1,653 debt owed to Nieman Marcus, when in truth and in fact he owed more than $723,527.90 in additional debts to TCC, Chapman Holdings, and CCM.

18 U.S.C. § 1014
18 U.S.C. § 2

COUNTS THIRTY-TWO THROUGH THIRTY-THREE
(Engaging in Monetary Transactions in Property Derived from Specified Unlawful Activity)

The Grand Jury for the District of Maryland further charges that:

1. The allegations of paragraphs 1 through 3 of Counts One through Thirteen and 2 through 7 of Count Thirty-One are realleged and incorporated by reference as though fully set forth herein

2. On or about February 24, 2003, **CHAPMAN** and his wife listed their residence at 13125 Brighton Dam Road for sale with Coldwell Banker Realty at an asking price of $1.7 million. The Chapmans also listed an adjoining, unimproved 5.99-acre lot (Lot # 9) for sale with Coldwell Banker for an asking price of $495,000.00.

3. On or about March 24, 2003, **CHAPMAN** and his wife Valerie agreed to sell Lot # 9 for $440,000.00.

4. On or about April 8, 2003, **CHAPMAN** and his wife Valerie agreed to sell their Brighton Dam Road residence for $1,160,000.00.

5. On June 27, 2003, Beltway Title & Abstract issued a check payable to **CHAPMAN** and his wife Valerie in the amount of $308,768.22, reflecting their share of the proceeds of the sale of Lot 9, Brighton Dam Road. Beltway Title & Abstract issued a check representing the remaining

$131,250.00 to Sandy Spring National Bank to satisfy the amount of its outstanding lien against the property and to pay other settlement charges and fees.

6. On or about July 2, 2003, the day before defendant **CHAPMAN** was arraigned on the original indictment in this matter, Valerie Chapman opened an account (# 3939044833) in her name only at the Columbia Harpers Choice branch of Bank of America with an initial deposit of $100.00.

7. On or about July 7, 2003, both **CHAPMAN** and his wife endorsed the $308,768.22 proceeds check from the sale of Lot 9, Brighton Dam Road, and Valerie Chapman then deposited it into the new account established solely in her name at Bank of America in Columbia.

8. On or about July 15, 2003, Valerie Chapman wrote a check for $42,000.00 and used it to obtain a cashier's check that was used as a down payment on a residence located at 6017 Misty Arch Run in Columbia, Maryland. This residence was titled solely in Valerie Chapman's name.

9. On or about July 15, 2003, Customer First Settlement Group, L.L.C. issued a check payable to **CHAPMAN** and his wife Valerie in the amount of $278,780.46, reflecting their share of the proceeds from the sale of their residence at 13125 Brighton Dam Road. The remaining $776,002.23 in

proceeds from this sale was paid to Sandy Spring National Bank to pay off the outstanding balance of its mortgage on the property.

10. On or about July 16, 2003, **CHAPMAN** endorsed the $278,780.46 proceeds check derived from the sale of 13125 Brighton Dam Road and then turned it over to his wife, who used it to pay off the balance of the $315,000 purchase price owing on the residence and real property titled in her name at 6017 Misty Arch Run in Columbia.

11. On or about October 3, 2003, Valerie Chapman used proceeds from the sale of Lot 9, Brighton Dam Road to (a) purchase a $10,000.00 Certificate of Deposit (#91000048706825) at Bank of America in the name of Valerie Chapman only and (b) open a money market account (#003937322858) at Bank of America in the name of Valerie Chapman only with a deposit of $38,995.00.

12. On or about the dates indicated below, in the State and District of Maryland, the defendant,

NATHAN A. CHAPMAN, JR.,

did engage and attempt to engage in a monetary transaction, in and affecting interstate and foreign commerce, in criminally derived property that had a value greater than $10,000 and that was derived from specified unlawful activity, that

is, false statements in connection with a mortgage application in violation of 18 U.S.C. § 1014, in that the defendant made and caused to be made the following transactions:

COUNT	DATE OF TRANSACTION	AMOUNT OF FUNDS INVOLVED IN TRANSACTION	NATURE OF TRANSACTION
32	July 7, 2003	$308,768.22	Deposit of check made payable to Nathan A. Chapman and Valerie Chapman constituting proceeds from the sale of Lot 9, Brighton Dam Road, into account # 3939044833 at the Harpers Choice (Columbia) branch of Bank of America
33	July 16, 2003	$278,780.46	Transfer of check made payable to Nathan A. Chapman and Valerie Chapman drawn on Alliance Bank constituting proceeds from the sale of 13125 Brighton Dam Road to Lakeside Title Co. in payment of the balance of the purchase price on 6017 Misty Arch Run

18 U.S.C. § 1957
18 U.S.C. § 2

COUNTS THIRTY-FOUR THROUGH THIRTY-FIVE
(Mail Fraud)

The Grand Jury for the District of Maryland further charges that:

At all times relevant to this indictment:

1. The allegations contained in paragraphs 1 through 9 of Counts One through Thirteen, and paragraphs 2 through 16 of Counts Twenty-Two through Twenty-Five, are hereby realleged and incorporated as though fully set forth herein.

2. The Board of Trustees of the Maryland State Pension System also includes various committees or subcommittees that focus on particular aspects of its work. The Investment Committee, which during the relevant period had a Chairman and ten members, was responsible for making recommendations to the full Board concerning decisions to add new managers, terminate existing managers, or reallocate investments among the System's various equity, fixed income and real estate managers. The Minority and Maryland-based Brokerage Commissions Subcommittee ("the Minority Subcommittee"), a subcommittee of the Investment Committee, was originally tasked with recommending measures whereby more of the System's brokerage business could be channeled to minority and Maryland-based brokerages. The Minority Subcommittee was originally established by the Board in the summer

of 1995 as a result of a proposal by **CHAPMAN**, who was then seeking to be selected as a fund manager for the State Pension System.

3. Debra B. Humphries was a portfolio manager specializing in fixed income securities. In or about 1996, she commenced a personal romantic relationship with **CHAPMAN** that lasted until in or about the spring of 1999. In the summer of 1997, while this relationship was ongoing, **CHAPMAN** recommended Humphries to the Governor's Office of the State of Maryland as a candidate for an open seat on the Board of Trustees. Then-Maryland Governor Parris N. Glendening subsequently appointed Humphries to a four-year term as a member of the Board of Trustees of the SRPSM commencing on July 1, 1997. She was reappointed to a second four-year term in the summer of 2001. After being appointed to the Board of Trustees and to its Investment Committee, Humphries was also named to the Minority Subcommittee. By the summer of 2001, she was the chairperson of the Minority Subcommittee. **CHAPMAN** knew that Humphries held these positions, and on various occasions **CHAPMAN** consulted with Humphries about matters relating to the business of the Board of Trustees.

4. As a member of the Board of Trustees and its Investment Committee, Humphries was a fiduciary of the State Pension System and was

subject to fiduciary obligations defined by both federal and state laws. These included the duty to make decisions with regard to the management of the System's assets based exclusively upon considerations of maximizing assets to fund benefits for the System's participants and of providing for the reasonable expenses of administering the system. As a public official himself through his service on the University of Maryland Board of Regents, **CHAPMAN** knew that Humphries was required to disclose to the State Ethics Commission any individual gifts of over $50 in value, or separate gifts together totaling more than $100 in value, from any person or entity doing business with or regulated by the board on which she sat.

5. Commencing at least as early as the spring of 1998, and continuing at least through the spring of 1999, on a number of occasions **CHAPMAN** offered, and Ms. Humphries accepted, cash, gifts, and other things of value, which placed her in a position of conflict of interest while she served as a member of the SRPSM Board of Trustees, its Investment Committee, and the Minority Subcommittee. Humphries did not disclose the gifts or monies she received from **CHAPMAN** to the other members of the SRPSM Board of Trustees or to the senior officials of the Maryland State Retirement Agency.

6. In the summer of 1998, Humphries left her job and remained

unemployed for a period of approximately nine months. Beginning somewhat before she left her job and continuing until sometime after she started in a new employment position in the spring of 1999, **CHAPMAN** provided Humphries with sums of cash for her personal support, which she in turn deposited into her personal checking account at Bank of America, as set forth in the table below:

Deposit Date	**Cash Amount**
03/30/98	$1,500.00
05/06/98	$1,500.00
06/09/98	$1,500.00
06/17/98	$1,300.00
07/14/98	$3,000.00
08/04/98	$1,100.00
08/12/98	$3,300.00
08/19/98	$2,100.00
08/24/98	$1,000.00
09/08/98	$3,000.00
10/02/98	$3,300.00
11/09/98	$3,000.00
12/07/98	$3,300.00
1998 Total:	**$28,900.00**

Deposit Date	**Cash Amount**
01/06/99	$3,200.00
02/01/99	$3,311.00
03/03/99	$3,200.00
04/08/99	$3,200.00
05/03/99	$2,400.00
06/07/99	$2,200.00
1999 Total:	**$17,511.00**

Combined Total: **$46,411.00**

7. On or about April 29, 1999, Humphries mailed her annual financial disclosure report for the calendar year 1998 to the State Ethics Commission, 300 East Joppa Road, Suite 301, Towson, Maryland 21286, in which she failed to disclose that she had received cash, gifts and other things of value from **CHAPMAN** which were required to be disclosed.

8. On or about April 6, 2000, Humphries mailed her annual financial disclosure report for the calendar year 1999 to the State Ethics Commission, 300 East Joppa Road, Suite 301, Towson, Maryland 21286, in which she failed to disclose that she had received cash, gifts and other things of value from **CHAPMAN** which were required to be disclosed.

9. Humphries did not recuse herself when matters relating to **CHAPMAN** came before the Board of Trustees for its consideration. Throughout the years in which she served on the Board of Trustees, Humphries participated in discussions and votes relating to matters affecting **CHAPMAN**'s interests as an investment manager who was responsible for managing money on behalf of the State Pension System. For example, on or about April 12, 2000, during a meeting of the Investment Committee of the Board of Trustees, Humphries voted in favor of restoring $50 million in SRPSM funds to

CHAPMAN's companies, after she had previously supported a motion by State Treasurer Richard Dixon to reduce **CHAPMAN**'s allocation of state pension funds by $100 million.

10. On or about May 12, 2000, Humphries voted in favor of restoring the full $100 million in state pension funds to **CHAPMAN**'s management.

11. At a meeting of the Investment Committee on January 12, 2001, Humphries defended **CHAPMAN**'s performance as a money manager for the State Pension System when his performance was criticized by other trustees.

12. On or about May 23, 2001, at **CHAPMAN**'s request, Humphries agreed to have dinner with him at the Harbor Court Hotel in downtown Baltimore. On this occasion, **CHAPMAN** advised Humphries that he intended to request that the Board of Trustees allocate an additional $100 million in state pension funds to CCM to manage.

13. In or about the late spring or early summer of 2001, again at **CHAPMAN**'s request, Humphries attended a meeting with him and members of his staff to discuss his plans for obtaining another $100 million in state pension funds for CCM to manage.

14. On or about June 28, 2001, **CHAPMAN** asked MSRA Chief Investment Officer Carol Boykin to advise the Board of Trustees of his interest

in receiving an additional $100 million in state pension funds to manage.

15. On or about July 16, 2001, Humphries participated in a conference telephone call with two other Trustees at which it was decided that the best way to secure additional investment funds for **CHAPMAN** would be to have the Board's Minority Subcommittee approve a proposal increasing the amount of state pension funds allocated to minority equity and fixed-income investment managers.

16. Humphries, in her capacity as Chairman of the Board's Minority Subcommittee, included as an agenda item for the subcommittee's August 10, 2001 meeting a proposal to increase the allocation of state pension funds to minority equity and fixed-income managers. This proposal would have benefitted **CHAPMAN**. The issue was subsequently raised at the Minority subcommittee's August 10, 2001 meeting, but it was not successful.

17. In January 2002, Humphries voted against terminating **CHAPMAN** as a money manager for the State Pension System after it was learned that **CHAPMAN** had authorized Alan Bond to buy *e*Chapman stock using DEM-MET funds.

18. Beginning in or about the spring of 1997, and continuing thereafter until in or about January 2002, in the State and District of Maryland,

the defendant,

NATHAN A. CHAPMAN, JR.,

did knowingly and willfully devise a scheme and artifice to defraud and to obtain money and property by means of false and fraudulent pretenses, representations and promises, including a scheme and artifice to deprive participants and beneficiaries of the State Retirement and Pension System of Maryland (SRPSM) of their right to Debra B. Humphries' honest services as a fiduciary ("the third scheme to defraud").

19. On or about the dates set forth in the counts below, in the District of Maryland, the defendant

NATHAN A. CHAPMAN, JR.,

for the purpose of executing and attempting to execute the third scheme to defraud, did knowingly and willfully cause to be delivered by the Postal Service and by any private or interstate commercial carrier according to the direction thereon the following mail matter, as set forth below:

COUNT	APPROXIMATE DATE OF MAILING	DESCRIPTION OF MAILING
34	April 29, 1999	An envelope addressed to the State Ethics Commission, 300 East Joppa Road, Suite 301, Towson, Maryland 21286, containing a required annual financial disclosure report for Debra B. Humphries for the year 1998, which failed to disclose the fact that Ms. Humphries had received cash payments totaling $28,900.00, more or less, and other gifts from **CHAPMAN** during the reporting period
35	April 6, 2000	An envelope addressed to the State Ethics Commission, 300 East Joppa Road, Suite 301, Towson, Maryland 21286, containing a required annual financial disclosure report for Debra B. Humphries for the year 1999, which failed to disclose the fact that Ms. Humphries had received cash payments totaling $17,511.00, more or less, from **CHAPMAN** during the reporting period

18 U.S.C. § 1341 & 1346
18 U.S.C. § 2

FORFEITURE ALLEGATIONS

1. The allegations of paragraphs 1 through 7 of Count Thirty-One, and paragraphs 2 through 11 of Counts Thirty-Two and Thirty-Three of this Indictment, are hereby realleged and incorporated as though fully set forth herein for the purpose of alleging forfeiture to the United States pursuant to the provisions of 18 U.S.C. § 982.

2. As a result of the offenses alleged in Counts Thirty-One through Thirty-Three, defendant **CHAPMAN** shall forfeit to the United States all property, real and personal, involved in the aforesaid offenses and all property traceable to such property, including but not limited to:

a. The real property listed below:

6017 Misty Arch Run, Columbia, Maryland

b. The bank accounts listed below:

Account # 3939044833 at Bank of America

Money Market account # 003937322858 at Bank of America

c. The Certificate of Deposit listed below:

Certificate of Deposit (#91000048706825) at Bank of America

3. If any of the property described above as being subject to forfeiture, as a result of any act or omission of the defendant --

a. Cannot be located upon the exercise of due diligence;

b. Has been transferred, sold to, or deposited with a third person;

c. Has been placed beyond the jurisdiction of the Court;

d. Has been substantially diminished in value;

e. Has been commingled with other property which cannot be subdivided without difficulty;

it is the intent of the United States, pursuant to 18 U.S.C. § 982(b)(1), to seek forfeiture of any other property of the defendant up to the value of the forfeitable property.

18 U.S.C. § 982

_____

_____

THOMAS M. DIBIAGIO

United States Attorney

A TRUE BILL:

_____

Foreperson

_____

Date