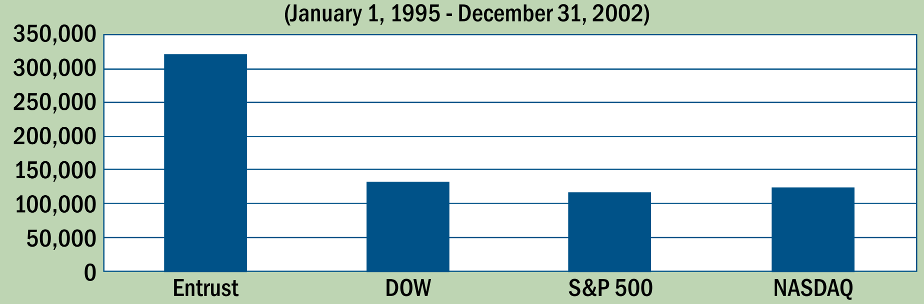
Hedge Fund High Jinks

In August of 2004, employees of an express courier service discovered undeclared U.S. currency in two packages, shipped by Amit Mathur from Shrewsbury, MA to New Delhi, India. The information was provided to ICE's SAC Boston and the FBI for further investigation. Through the SEC, ICE learned that Mathur was fired from a prominent investment firm for making questionable/unethical stock trades. Massachusetts's corporate records indicated that Mathur and his partner, Rajeev Johar, co-owned and operated a private investment fund or hedge fund known as Entrust Capital Management (ECM).

Entrust Capital's Advertised Rate of Return

	Average Rate of Return Four-year period ended December 2002	Cumulative Rate of Return Four-year period ended December 2002
Entrust Capital	**31%**	**218%**
Nasdaq Composite	14%	16.3%
S&P 500 Stock Index	5.2%	12.4%
Dow Jones Industrial Average	5.9%	30.8%

Comparative Analysis of Hypothetical $100,000 investment
(January 1, 1995 - December 31, 2002)



ECM's brochure included this chart showing the rate of return by ECM was 218% as compared to the NASDAQ (16.3%) and Dow Jones Industrial Average (30.8%) in the same time frame.

Scheme

Through further investigation ICE agents identified and interviewed 16 ECM investors. The investors revealed that they were all victimized by Mathur and Johar as part of this investment scheme. Victims provided agents with ECM brochures that purported a rate of growth that outperformed the Dow Jones and NASDAQ averages. Agents discovered that these brochures were copied from a nationally recognized investment firm's Web site.

Victims of this scheme were also provided with monthly account statements and false tax forms showing gains consistent with fictitious ECM account statements created by Mathur and Johar. Based on the gains represented on these frivolous documents, the victims continued to invest more money into ECM and even paid taxes on their supposed gains. In reality, ECM was losing money due to poor trades and gross misappropriations of the money by Mathur for personal use. Mathur would wire money out of the investment account to his personal account and spend the money gambling and living the high life.

The principle ECM investor, a prominent Massachusetts businessman, invested approximately $15 million (USD). This businessman received a "return" on his investment of just over $2 million that was characterized as dividend disbursements. In actuality, the disbursements were a return of the invested funds and it further induced him to continue to invest in the scheme. 15 additional investors each contributed between $100,000 to $500,000. One of these investors also received approximately $350,000 back then grew suspicious of the legitimacy of the Entrust investment fund.

The investors suffered a total loss of over $13.5 million. The government intervention prevented the loss of an additional $2.5 million.

Investigative Results

Mathur was indicted on 18 counts of mail fraud and 2 counts of wire fraud and surrendered to U.S. Marshals on October 4, 2006. ICE agents seized and forfeited a 2004 Porsche Cayenne valued at $65,000. Proceeds from the sale of the vehicle will be remitted back to ECM victims.

Red Flag Indicators

- Numerous cash withdrawals from same account made at different branches in the same day;
- Structured international wire transfers;
- Use of multiple accounts to conduct financial transactions inconsistent with normal activity for stated business;
- Rate of return that far exceeds the market norm;
- ECM's accounts showed significant third party checks being deposited; and
- Money in the ECM accounts used to pay off large credit card bills, two mortgages and luxury vehicles.

The Cornerstone Report

Safeguarding America through Financial Investigations

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Inside This Issue

Cornerstone is U.S. Immigration and Customs Enforcement's (ICE) comprehensive investigative initiative for fighting financial crime.

The Cornerstone Report is a quarterly bulletin highlighting key issues related to ICE financial, narcotics and public safety investigations.

U.S. Immigration and Customs Enforcement

Toll-Free Tip Line: 1-866-DHS-2-*ICE*

www.ice.gov/cornerstone

ICE's Role in Securities and Investment Fraud

Seized home of main target, purchased utilizing funds from stock sales.

Home of StockGenie conspirator, purchased utilizing funds from stock sales. Purchase of home was identified through BSA analysis.

2002 Bentley Azure purchased utilizing funds from StockGenie stock sales.

2003 Aston Martin purchased utilizing funds from PNLK stock sales.

Securities and Investment Fraud

Securities and investment fraud is not a new occurrence but with the advent of the Internet, it has become easier to perpetrate. The schemes are still essentially the same, promising high-yield profits with little to no risk. Instead of just paper copies of graphs showing phenomenal growth, there are descriptive Web pages that appear to be authentic and genuine. Instead of an individual "cold calling" a potential victim, it is a computer that is targeting potential victims in emails and through Web sites for fraudulent corporations. In investigating financial crimes, ICE has encountered an increasing number of securities and investment fraud schemes.

As part of the continued Cornerstone outreach, the Special Agent in Charge (SAC) for Baltimore, Jim Dinkins spoke on March 12, 2007, to attendees at the Securities Industry and Financial Markets Association's (SIFMA) Anti-Money Laundering Compliance Conference in New York, New York. SAC Dinkins advised the attendees to be vigilant against anything that sounds too good to be true.

Don't Be a Victim of Securities Fraud

- Be wary of companies or individuals that promise high yield returns.
- Research a company and/or individual thoroughly before sending any money.
- Check on the disciplinary record of the financial professional that you are planning to invest with. The National Association of Securities Dealers (NASD) is the primary private-sector regulator of America's securities industry and offers a search function on its Web site (**www.nasd.com**). Also check with your state's securities regulator.
- Be skeptical of any investment that is touted as a "sure thing" or one claiming little or no risk.
- Don't be afraid to ask questions. On its Web site, the Securities and Exchange Commission (SEC) (**www.sec.gov**) lists some of the basic questions an investor should ask before committing to any investment.

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Sale in Illicit Stock, continued

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Some of the schemes recently uncovered by ICE involve the embezzlement of funds intended for the purchase and trading of stocks, issuance of penny stocks and reverse mergers that were used in Operation Highroller.

Operation Highroller: Sale in Illicit Stock Generated $50 Million

In June 1997, the Special Agent in Charge Office (SAC) in Philadelphia, as part of the Atlantic City Casino Task Force (ACCTF), started investigating international money laundering through Atlantic City, New Jersey casinos and discovered an extensive, international stock fraud and money laundering conspiracy. The New Jersey State Police (NJSP), Division of Gaming Enforcement, Atlantic City, NJ, identified Philippe Hababou, a French citizen, as a possible target for the ACCTF, based on Bank Secrecy Act (BSA) filings on Hababou's activities at Caesars and Trump Taj Mahal casinos in Atlantic City. Specifically, the numerous CTR filings revealed the movement of approximately $8.6 million.

Investigation revealed that Hababou was making large deposits into his casino accounts via wire transfer. Hababou then obtained gambling chips that he gave to Marc Rousso, the mastermind behind the elaborate scheme. Rousso used the chips, gambled a little and then returned the chips, including any winnings back to Hababou. Hababou then turned in the chips for cash, claiming them as winnings and withdrawing the remainder of his deposit in cash. It was later determined that Hababou was acting on behalf of Rousso and the wire transfers into the casinos were proceeds from the sale of penny stock controlled by Rousso in nominee brokerage accounts in Canada.

Scheme

The largest scheme involved the organization's purchase and "reverse merger" of two corporations, Prevention Productions (a non-operating public shell company) and ProNetLink (PNLK). A reverse merger results in a privately held company becoming a publicly held company without applying the traditional route of filing a prospectus and undertaking an initial public offering (IPO). The privately held company takes on the "public" status through the merger of the two entities and new stock is issued to nominee stockholders who are acting on behalf of company insiders.

The investigation revealed an elaborate stock fraud orchestrated by Rousso and PNLK CEO Jean Pierre Collardeau involving the fraudulent issuance, transfer and sale of millions of shares of PNLK stock through foreign nominee owners and the promotion of PNLK stock through the Internet. Most of these shares were sold through Canadian brokerage firms in order to avoid SEC scrutiny. Proceeds from these sales were laundered through the casinos in Atlantic City and financial institutions in New York City, Canada, Netherlands Antilles and Switzerland.

Investigative Results

Co-conspirators shared in over $50 million in illegal profits from the sale of illicit stock. It is anticipated that total seizures in relation to this investigation will total over $13 million in cash, properties, vehicles, and other assets. ICE will return approximately $4.5 million to the 125 victims identified to date. As of now, 14 conspirators, including Rousso, Collardeau, two complicit stock brokers, an attorney specializing in SEC law, and an accountant have been convicted of various charges, including money laundering; securities, wire and mail fraud; CTR and tax related violations.

Red Flag Indicators

- Use of "reverse merger" loophole to issue stock. A reverse merger is a favorite of individuals that perpetrate stock scams because, although legal, it is a means to bring a private company public and to issue new shares without SEC scrutiny. Often, the new shares are issued to company insiders or their nominees. A reverse merger can often be a first step that leads to market manipulation by company insiders.
- Business account activity commingled with personal account activity.
- Use of multiple accounts to conduct financial transactions inconsistent with normal activity for stated business.
- Movement of funds, especially the international movement of funds, into and out of an account(s) through multiple wire transfers and/or checks (cash management accounts) with little if any securities transactions.
- Transfer of funds between seemingly unrelated accounts within a broker/dealer.
- Large amounts of cash placed on deposit in casino accounts and subsequently withdrawn with little or no play—a technique used by money launderers to obscure or disguise the true source of the funds by causing the casino to file a Currency Transaction Report, thus making the money appear as gambling winnings
- Large cash payments used to purchase high-value items such as real estate, vehicles and other luxury items—a method in which illicit proceeds are laundered.

European Investors Scammed

ICE initiated an investigation based on suspicious financial wire transfers through businesses owned and operated by the main target of this investigation, (herein referred to as "Target"), who was purported to be operating hedge funds and financial advisement firms, which catered to wealthy European citizens outside of the United States.

Financial analysis revealed that the Target's account activity involved hundreds of incoming wire transfers from overseas accounts to domestic accounts held in the name of businesses controlled by the Target that were purportedly being used to purchase stocks in the United States market. The funds were then wired among several other business accounts controlled by Target and then ultimately used to pay personal expenses and business expenses in furtherance of the scheme.

The Target utilized his hedge fund consulting agencies to sponsor European individuals seeking work in the United States. The Target applied for immigration status for his workers and utilized them as boiler-room operators. These individuals would then contact wealthy European citizens through a cold-calling technique and entice them to purportedly purchase stocks in the United States market. Once the funds were received via wire, they were transferred among several accounts controlled by Target and his co-conspirators. The funds were ultimately spent on personal and business expenses in furtherance of the fraud. Very few stocks were actually purchased with the funds. The Target instructed his workers on how to use deceptive measures and blatant lies to extract more money from the unsuspecting investors. Some investors lost in excess of one million dollars in an attempt to recoup investments they believe were locked up in the United States stock market.

In June 2006, the Target and several co-conspirators were arrested on a complaint filed in the Southern District of New York and charged with conspiracy to commit securities, mail, and wire fraud under Title 18 USC 371. The Target and another defendant are currently awaiting trial. One co-conspirator pleaded guilty to the conspiracy charge and to a substantive count of securities fraud, 15 USC 78j (b) and 78 ff and is awaiting sentencing while another considers a plea agreement. The remaining defendant is a fugitive from justice.

Investigation determined that in a six-year span, Target and his co-conspirators defrauded approximately 800 victim investors out of approximately $21 million dollars. These numbers may be higher due to the fact that Target has been involved in this scheme for approximately twelve years in Europe and the United States. Approximately $700,000 in victim's funds have been recovered and seized from bank accounts and an additional $300,000 is being held in trade accounts. A lis pendens was also filed on a multi-million dollar residence that was purchased with victim funds.

Red Flag Indicators

- Use of multiple business accounts to conduct financial transactions inconsistent with normal activity for stated business.
- Source of money for business is different from the source listed in the business profile filed with the bank (business profile claimed the money would come from hedge funds when in actuality all the money came from individuals).
- Main conspirator purported to be investing in the stock market but neither he nor his business had any certifications or license to buy or sell stocks.
- Conspirators had over 40 bank accounts at 10 different financial institutions. Many of the accounts utilized the same or similar names and addresses.