

SEC helps nab alleged New York pump and dump mobsters

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The U.S. Securities and Exchange Commission (SEC), the Internal Revenue Service and the National Association of Securities Dealers are all credited with extensive assistance in a three-year FBI investigation that led to the March 23 arrest of 10 members of three New York organized crime families allegedly involved in racketeering and extortion in connection with a number of boiler room stock fraud schemes.

Family affair

A 73-page federal grand jury indictment filed in the U.S. District Court for the Eastern District of New York charging members of three separate New York crime families with various crimes relating to the stock fraud schemes was unsealed on March 23.

Reputed Colombo family capo 61-year-old Joseph Baudanza, his 63-year old brother and Colombo family associate Carmine Baudanza, along with other Colombo associates Arthur Gunning, Craig Leszczak and Robert Podlog and Colombo family soldier Craig Marino are all charged with racketeering conspiracy including securities fraud, extortion, witness tampering, kidnapping and money laundering.

Luchese family soldier John Baudanza, who married the daughter of a Luchese capo but maintains an association with the Colombo family as the son of Carmine Baudanza and nephew of Colombo capo Joseph Baudanza, and Luchese family associate Jerry Degerolamo are also charged with racketeering conspiracy including securities fraud, extortion, witness tampering, kidnapping and money laundering.

Rounding out the charges, Bonanno family soldier Ronald Giallanzo and associate Vincent Rossetti are charged with extortion.

If convicted on all charges, the defendants face very hefty maximum sentences.

John Baudanza could face 115 years in prison; Jerry Degerolamo is facing a maximum 95-year sentence; Carmine Baudanza and Craig Leszczak each face a possible 90 years in prison; Joseph Baudanza could spend 70 years in the slammer; Craig Marino and Robert Podlog are looking a 50-year sentences; Ronald Giallanzo and Vincent Rossetti face possible 40-year terms; and Arthur Gunning could be sentenced to 35 years in prison.

All 10 alleged mobsters entered pleas of not guilty when arraigned in the Brooklyn courtroom on March 23.

Joseph, Carmine and John Baudanza as well as Robert Podlog were ordered temporarily detained by Magistrate Judge Marilyn D. Go.

The case has been assigned to U.S. District Judge Raymond J. Dearie, who is no stranger to complex securities fraud cases.

Among other matters, Judge Dearie presided over the lengthy trial of convicted securities fraudster Amr (Anthony) Elgindy and is scheduled to issue a sentence in that case on May 2.

The scheme

Between 1994 and 2004, according to the allegations in the indictment, the mobbed-up defendants controlled at least 15 branch offices of brokerage firms located in Brooklyn, Manhattan and Staten Island.

The U.S. government claims that the mobsters secretly controlled branch offices including Euro-Atlantic Securities Inc., J.P. Milligan Inc., Global Strategies Group Inc., Ash Financial Corp., and Amerivet Dymally Securities Inc., which later became TYM Securities Inc.

Centex Securities Inc., Barron Chase Securities Inc., Grady and Hatch & Company Inc., Bell Investment Group Inc. and Couch Inc. offices also fell under the control of the defendants.

Rounding out the brokerage offices secretly run by the mobsters were Chicago Investment Group LLC, L.H. Ross & Company Inc., Yankee Financial Group Inc. and Great Eastern Securities Inc.

The defendants reportedly used both licensed and unlicensed brokers and cold callers to flog more than a dozen penny stocks, most of them trading on the lightly regulated and heavily prosecuted OTC Bulletin Board, in which the mobsters had managed to acquire large blocks of cheap shares.

According to the U.S. Attorney's office, many unsuspecting investors were victims of classic pump and dump schemes orchestrated by the mobsters in which the stock prices were "falsely inflated through fraudulent means" by brokers and cold callers "who misrepresented their own credentials and the prospects of the stocks they were pushing."

"The brokers also routinely failed to disclose excessive cash commissions paid to them as bribes to tout stocks ripe for manipulation," the government claims.

According to the allegations in the indictment, brokers pushing the so-called "house stocks" as directed by the mobsters received commissions that could amount to between 20 per cent and 50 per cent of the price of the shares they managed to flog.

The brokers and cold callers used high-pressure sales tactics not only flog to the stocks, but to discourage investors from selling the house stocks. In some cases, they simply ignored investors' orders to sell the house stocks.

"The deceptive practices were used to drive the stock prices higher and maintain the prices as long as possible, until the defendants and their confederates could sell their personal holdings of the stocks at inflated values," says the U.S. Attorney. "The estimated loss to victims was in excess of \$20-million."

According to the indictment, the mob's house stocks included, among others, Legend Sports Inc., Axxess Inc., HTTP Technology Inc., Learner's World Inc., Rollerball International Inc., SIMS Communications Inc., and Flexweight Corp.

The alleged mob-directed sales also included shares of Rick's Cabaret International Inc., Blini Hut Inc., Orex Gold Mines Corp., Motorsports USA Inc., Evans Systems Inc. and Silver Star Foods Inc.

The defendants also pushed investments in a purported hedge fund, America's Hedge Fund. According to the indictment, much of the money invested in America's Hedge Fund ended up being used for things like the mobsters personal expenses such as credit card and vehicle payments and home renovations.

Mob and market

"The association between organized crime figures and stock manipulation schemes is as logical as it is pernicious," FBI Assistant Director-in-Charge Mark J. Mershon said. "The success of these illegal schemes depends on the enforcement of legally unenforceable agreements among dishonest brokers and promoters.

"If nothing else, mobsters are schooled in the methods of enforced discipline."

The exact nature of the "methods of enforced discipline" is somewhat difficult to ferret out from the 73-page grand jury indictment, but the disciplinary methods include beatings, kidnappings and stabbings.

The U.S. Attorney's office lays the matter of the mob's methods out rather more succinctly than the indictment in a March 23 press release.

"To protect their financial interest in and to ensure the success of these criminal schemes, the defendants exploited their affiliation with organized crime to control and discipline stock promoters, brokerage firm owners, brokers, cold callers, and other employees at the brokerage firms through extortionate tactics, including threats of physical harm, beatings and stabbings," the U.S. Attorney says.

"In one instance, a stock promoter was kidnapped and chained to a pit bull until the promoter paid money owed to one of the brokerage firm," the U.S. Attorney continues.

"In another, a cold caller was hit over the head with a golf club, at the same time as a broker was beaten with a bat and stabbed after the broker said he wanted to leave the firm."

Level field

"We will employ all available resources to ensure that members of the investing public are not victimized by unscrupulous brokers backed by the mob," U.S. Attorney Roslynn R. Mauskopf declared in announcing the charges on March 23. "Investors are entitled to a level playing field."

Notwithstanding the efforts of Ms. Mauskopf and her predecessors in the Eastern District of New York and other law enforcement officials, some investors might wonder just how long it takes to level even a portion of the playing field.

Some market observers, including Canadian followers of Howe Street shenanigans, may recognize at least some of the stocks mentioned in the March 23 indictment.

Legend Sports, for example, was one of the stocks promoted by former Pacific International Securities Inc. client David Houge.

Pacific International ex-brokers Dirk Rachfall and Michael Patterson serviced mob-connected Mr. Houge almost a decade ago and were indicted by another Brooklyn grand jury in 1999.

The Vancouver brokers each copped a plea to one count of securities fraud in that Colombo family and Russian Bor mob boiler room case that led to approximately 20 convictions.

As part of the plea agreement executed six years ago, the U.S. government agreed not to bring any further charges against the former Pacific International brokers, including foregoing any charges relating to securities fraud involving Legend Sports.

Market observers may also recognize at least a couple of stocks that were once in the stable of Salt Lake City promoter Allen Wolfson, who rigged the price of Learner's World and Rollerball International.

Mr. Wolfson, who also had a fondness for Vancouver brokerages, was snared in the FBI's Operation Uptick in 2000, the largest stock fraud case in U.S. history. The 120 defendants in that massive case included at least 11 members and associates of five organized crime families.

Mr. Wolfson, who used a mob-connected middleman and bribed brokers to flog Learner's World, Rollerball and four other penny stocks in 1999 and 2000, was subsequently convicted of conspiracy, securities fraud and wire fraud.

Stockwatch will continue to follow developments and review some of the companies involved in this latest attempt to level the playing field by indicting mobsters allegedly involved in fraudulent stock schemes.