

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x
UNITED STATES OF AMERICA

- v -

REPUBLIC NEW YORK
SECURITIES CORPORATION,

Defendant.

INFORMATION

01 Cr. ____ (____)

-----x
COUNT ONE

(Conspiracy to Commit Securities and Commodities Fraud)

The United States Attorney charges:

RELEVANT PERSONS AND ENTITIES

1. At all times relevant to this Information, REPUBLIC NEW YORK SECURITIES CORPORATION ("REPUBLIC SECURITIES"), the defendant, was a wholly-owned subsidiary of Republic New York Corporation ("RNYC") and an affiliate of Republic National Bank of New York ("Republic Bank"). REPUBLIC SECURITIES was a broker/dealer of securities registered with the United States Securities and Exchange Commission (the "SEC") and a member of the National Association of Securities Dealers. REPUBLIC SECURITIES was also a futures commission merchant registered with the United States Commodity Futures Trading Commission (the "CFTC") and a member of the National Futures Association. REPUBLIC SECURITIES' primary business activity involved providing

securities and futures brokerage services to individual and institutional clients.

2. During the relevant time period, REPUBLIC SECURITIES, the defendant, maintained its principal offices in New York, New York. REPUBLIC SECURITIES' "back-office" operations were primarily conducted at its principal offices in New York, New York, and funds held on behalf of customers were held in accounts in the name of REPUBLIC SECURITIES at Republic Bank in New York, New York. In or about November 1995, REPUBLIC SECURITIES opened a branch office in Philadelphia, Pennsylvania (the "Philadelphia Branch").

3. At all relevant times, the commodity and futures trading operations of REPUBLIC SECURITIES, the defendant, were conducted through its Futures Division. From in or about November 1995 through in or about August 1999, the President of the Futures Division worked out of the Philadelphia Branch.

4. At all times relevant to this Information, Martin A. Armstrong, a co-conspirator not named as a defendant herein, held himself out to the investing public as, among other things, an economist, investment advisor, market forecaster, and successful commodities trader. Among other things, Armstrong claimed to have "correctly forecasted every major turn in the financial markets in the last ten years." Armstrong conducted

his investment advisory and market forecasting business through a number of companies that he owned and/or controlled. During the period relevant to this Information, Armstrong also acquired a number of companies that provided securities and commodities brokerage services around the world. At various times relevant to this Information, those companies included, among many others, the following:

a. The Princeton Economic Institute, Inc. (the "Institute"), a corporation organized under the laws of the state of Texas. The Institute sold various publications, research reports, charts, and other materials that purported to forecast economic trends as well as the future value of approximately two dozen currencies and commodities.

b. Princeton Economics International, Ltd. ("PEIL"), a corporation organized under the laws of the Turks and Caicos Islands, British West Indies, with its headquarters located at 214 Carnegie Center, Princeton, New Jersey. PEIL purported to be in the business of providing investment advisory and other financial management and consulting services.

c. Princeton Global Management, Ltd. ("PGM"), a holding company which was purportedly a wholly owned subsidiary of PEIL. PGM, in turn, purported to own a series of incorporated "special purpose vehicles" (collectively the "PGM SPVs") which

issued securities that were sold to investors between 1992 and 1999. Each PGM SPV had a unique name that included the phrase "Princeton Global Management" followed by an alphanumeric designation such as, for example, "A," "B," "AMD," and "NES-40." Although PGM purportedly owned each of the PGM SPVs, PGM was not in fact incorporated until in or about June 28, 1998, when it was organized under the laws of the Turks and Caicos Islands, British West Indies. Similarly, the PGM SPVs were purportedly incorporated under the laws of the Turks and Caicos Islands, but, in fact, many were never formally incorporated. At all times relevant to this Information, PGM and the PGM SPVs' activities were primarily conducted from PEIL's headquarters in Princeton, New Jersey.

d. Cresvale Far East Limited ("CFE"), a broker-dealer of securities and a financial services company organized under the laws of Hong Kong. Armstrong acquired CFE in or about November 1995, and CFE became a wholly-owned subsidiary of PEIL. From November 1995 through September 1999, Armstrong controlled CFE and its various subsidiaries.

e. Cresvale International, Ltd. ("Cresvale"), a wholly owned subsidiary of CFE. Among other businesses, Cresvale operated a branch in Tokyo, Japan ("Cresvale-Tokyo"). Cresvale-Tokyo was a broker-dealer of securities. Among other business,

Cresvale-Tokyo marketed investment advisory services provided by Armstrong and sold securities issued by companies, such as the PGM SPVs, that Armstrong controlled. From in or about October 1995 to in or about September 1999, Armstrong acted as the chairman of Cresvale.

THE PRINCETON NOTE SCHEME

Overview

5. As set forth more fully below, from in or about 1992 through in or about September 1999, Armstrong and others, known and unknown, engaged in a scheme to defraud investors who purchased certain securities (the "Princeton Notes") issued by the PGM SPVs. Armstrong, and others, fraudulently induced approximately 139 victim-investors (the "Noteholders") to purchase approximately 400 Princeton Notes for approximately \$3 billion. Contrary to representations to investors, Armstrong and others engaged in a variety of deceptive and manipulative acts and practices which harmed the Noteholders and unlawfully benefitted participants in the scheme. Those practices included, among other types of conduct: (1) risky and speculative trading activity, concealed from the Noteholders, that resulted in losses of approximately \$580 million; (2) numerous misrepresentations to investors designed to conceal these massive losses; (3) the commingling of funds raised from the sale of separate Princeton

Notes; (4) the use of funds raised from the sale of newer notes to pay off older notes as they came due, in the manner of a traditional "Ponzi" scheme; and (5) the misappropriation of investor funds for the benefit of Armstrong and others involved in the scheme. As a result of this scheme, the Noteholders suffered losses exceeding \$700 million.

The Terms Of The Princeton Notes

6. Generally, each PGM SPV issued a single Princeton Note that was sold to a single investor. Some of the notes paid fixed rates of interest, some paid variable rates of interest, and some provided the Noteholder with an additional return that depended on Armstrong's trading profits. The notes were generally sold with face values ranging from \$1 million to \$100 million (or an equivalent value in Japanese Yen) and were issued in maturities generally ranging from one to ten years.

7. Although certain terms varied from note to note, the majority of the Princeton Notes shared common terms. The terms reflected the marketing emphasis, described more fully below, on Armstrong's purported success as a trader of currencies, commodities and a variety of other financial instruments. Under the terms of the Princeton Notes, as memorialized in agreements executed between Armstrong and the Noteholders (the "Princeton Note Agreements"), the proceeds from

the sale of each note were to be used to create a "trading fund" that Armstrong, through PEIL acting as the investment advisor, would manage on behalf of the Noteholder. The "trading fund" for each Princeton Note was to be maintained in a segregated account (the "PGM SPV Account") at a brokerage firm in the United States. The proceeds from the sale of one Princeton Note were not to be commingled with the proceeds from the sale of notes issued by any other PGM SPV. Moreover, as the investment advisor, Armstrong was authorized to use the funds in the PGM SPV Accounts only to: (1) execute trades on behalf of the PGM SPV that issued the note; (2) pay interest and principal due on that note; and (3) pay to Armstrong certain management fees based on the value of the assets held in the PGM SPV Account and performance fees based on the results of Armstrong's trading activity. These terms were material to investors because, among other reasons, the sole asset of each PGM SPV was the money obtained from the sale of a Princeton Note and thus these restrictions were necessary to secure repayment of each note and protect each Noteholder's investment.

8. In addition, Armstrong was required periodically to report to each Noteholder the value of the assets in the Noteholder's PGM SPV Account and the results of Armstrong's trading activity. Under the terms of most of the Princeton

Notes, the Noteholder was entitled to redeem the note if the net asset value of its PGM SPV Account fell by more than ten percent.

The Fraudulent Marketing Of The Princeton Notes

9. In furtherance of their scheme, Armstrong and others caused the Princeton Notes to be sold, principally, by Cresvale-Tokyo and other Japanese brokerage firms to publicly traded Japanese corporations. Although the majority of the Noteholders were large corporations, some Princeton Notes were sold to individual investors. The Princeton Notes were marketed as investment vehicles intended to allow the Noteholders to profit from Armstrong's purported ability to trade successfully in currencies, commodities, futures, and derivatives such as index futures. The Princeton Notes generally offered higher rates of interest than were otherwise available in Japan.

10. In furtherance of this scheme Armstrong, together with others known and unknown, made numerous false and fraudulent representations to the Noteholders and to Japanese securities brokers who assisted in selling Princeton Notes. These misrepresentations were intended to, and did, induce the Noteholders to: (1) purchase notes; (2) "rollover" existing notes as they matured; and (3) refrain from redeeming notes prior to their maturity. Those misrepresentations included, among other material matters:

a. Claims that Armstrong had achieved a historical "track record" of positive annual trading results on yen-based Princeton Notes between 14.03% and 51.81%, and trading results between 3.6% and 51.37% on dollar-based Notes, when in truth and in fact, Armstrong consistently lost money from his trading activity.

b. Claims that funds obtained from the sale of Princeton Notes would be held in segregated accounts for the exclusive benefit of each Noteholder, when in truth and in fact, the proceeds from the sale of different Princeton Notes were commingled and used for a number of improper, undisclosed purposes, including: (i) paying principal and interest due on other notes; and (ii) covering trading losses incurred on behalf of other notes.

c. Claims that the proceeds from the sale of the Princeton Notes would be used solely in accordance with the terms and conditions of Armstrong's agreements with the Noteholders, when in truth and in fact, Armstrong and others misappropriated a substantial portion of those funds to, among other things: (i) buy rare coins, antiquities and real estate used by Armstrong; (ii) purchase certain of the Cresvale entities; and (iii) fund the business operations of the various companies that Armstrong controlled.

d. Claims, from time to time, that Armstrong's trading activity on behalf of the PGM SPV Accounts had been profitable and that, as a result, the net asset value of the PGM SPV Accounts had increased, when in truth and in fact, Armstrong's trading resulted in massive losses and substantial decreases in the value of the Noteholders' investments.

Operation Of The Scheme From 1992 Through February 1995

11. From in or about June 1992 through in or about February 1995, Armstrong raised more than approximately \$260 million through the sale of approximately 16 Princeton Notes. The proceeds from the sales of those notes were deposited in brokerage accounts, maintained at Prudential Securities ("Prudential"), established in the names of 14 separate PGM SPVs.

12. Between February 1993 and February 1995, Armstrong actively traded in currencies, commodities, futures and other financial instruments through the PGM SPV Accounts at Prudential. The results of Armstrong's trading activity on behalf of those accounts were disastrous. During that period, Armstrong's trading activity caused net losses of more than \$29 million in the 14 PGM SPV accounts.

13. In furtherance of this scheme, Armstrong hid his trading losses through a variety of means. Among the means of hiding the losses, Armstrong created and issued to the

Noteholders monthly statements that falsely and fraudulently overstated the value of the assets in each PGM SPV Account and reflected profitable trading activity.

14. Moreover, as a result of Armstrong's massive trading losses, many of the PGM SPV Accounts did not have sufficient funds available to repay their respective Princeton Notes as those notes became due. In order to hide the massive trading losses, to ensure that existing Noteholders did not redeem their notes, and to ensure his continued ability to sell new Princeton Notes, Armstrong repaid older notes as they became due by using funds from the PGM SPV Accounts of notes that were not yet due. Over time, this practice substantially depleted the value of those PGM SPV Accounts funded by the sale of those Princeton Notes with the longest maturities.

15. In or about late 1994, officers of Prudential Securities became concerned about the mounting losses in the PGM SPV Accounts and other accounts managed by Armstrong. Officers of Prudential also became concerned about a number of multi-million dollar transfers of cash between the PGM SPV Accounts and financial institutions in Japan. As a result, officers of Prudential Securities asked Armstrong, among other things, to explain the nature of his business, to disclose the identities of his clients, and to disclose the terms of his contractual

arrangement with his clients. In or about February 1995, after Armstrong refused to identify his clients and otherwise failed to answer other questions satisfactorily, officers of Prudential Securities asked Armstrong to move his accounts to another firm. Thereafter, Armstrong closed the accounts under his control at Prudential Securities and transferred the assets to a bank account in the name of PEIL.

**Armstrong Moves The PGM SPV
Accounts To REPUBLIC SECURITIES**

16. At or about the time that Prudential Securities terminated its business relationship with Armstrong, Armstrong opened new accounts at REPUBLIC SECURITIES, the defendant. During the period of time that Armstrong maintained the PGM SPV Accounts at Prudential Securities, all of the accounts controlled by Armstrong were serviced by an assigned account representative. At or about the time that Prudential Securities terminated its business relationship with Armstrong, that account representative (the "Futures Division President"), a co-conspirator not named as a defendant herein, was hired by REPUBLIC SECURITIES and later became the President of REPUBLIC SECURITIES' Futures Division.

17. In or about March 1995, Armstrong opened approximately 10 accounts at REPUBLIC SECURITIES, the defendant, in the name of 10 separate PGM SPVs. Thereafter, as Armstrong sold additional Princeton Notes, he generally opened a new PGM

SPV Account for each new Princeton Note. During 1995, Armstrong opened approximately 36 accounts in the names of various PGM SPVs at REPUBLIC SECURITIES and deposited into those accounts more than approximately \$550 million. Over the course of the scheme's operation through REPUBLIC SECURITIES, from March 1995 through September 1999, Armstrong opened a total of more than approximately 450 PGM SPV Accounts and sub-accounts at REPUBLIC SECURITIES and deposited into those accounts a total of more than approximately \$3 billion. Armstrong quickly became one of REPUBLIC SECURITIES' largest and most profitable client relationships.

REPUBLIC SECURITIES' Knowledge Of The Princeton Notes

18. Although REPUBLIC SECURITIES, the defendant, did not know all of the terms of the Princeton Note Agreements or the contents of the offering materials circulated by Armstrong, REPUBLIC SECURITIES had sufficient information about the Princeton Notes to know that many of the actions in which REPUBLIC SECURITIES engaged, as set forth more fully below, operated as a fraud and deceit upon the Noteholders. During the course of 1995, REPUBLIC SECURITIES learned that the funds deposited in the PGM SPV Accounts were derived from the sales of notes issued by the PGM SPVs and sold to various publicly held Japanese corporate investors as part of an "investment venture"

developed and controlled by Armstrong. REPUBLIC SECURITIES further learned that each PGM SPV generally issued a single Princeton Note to a single Noteholder. REPUBLIC SECURITIES also learned that Armstrong had represented to Noteholders that the proceeds from the sales of the Princeton Notes were supposed to be primarily used to purchase U.S. Government securities (which paid higher interest rates than similar securities in Japan) and to trade currencies in order to hedge against exchange rate risks. REPUBLIC SECURITIES also later learned that, in many instances, the Noteholder's sole recourse for repayment of its Princeton Note was the assets of the PGM SPV that issued the note. REPUBLIC SECURITIES further knew that Armstrong periodically withdrew funds from the PGM SPV Accounts as management and performance fees and transferred those funds to, among other places, accounts maintained at REPUBLIC SECURITIES in the name of PEIL and controlled by Armstrong.

19. From time to time, REPUBLIC SECURITIES, the defendant, requested Armstrong to provide additional information about the Princeton Notes including, among other things, the identities of the Noteholders, copies of the Princeton Note Agreements and offering materials, and financial statements for PEIL and PGM. Armstrong steadfastly refused these requests. From time to time, advisors and employees of REPUBLIC SECURITIES'

affiliated entities expressed suspicions about Armstrong's activities and counseled REPUBLIC SECURITIES to cease doing business with Armstrong unless Armstrong satisfied REPUBLIC SECURITIES' queries. As REPUBLIC SECURITIES well knew, it had ample means of learning the identities of many of the Noteholders and obtaining copies of the Princeton Note Agreements, notwithstanding Armstrong's refusals, yet deliberately and wilfully avoided discovering the terms of the Princeton Notes out of concern that such discoveries would likely have resulted in ending REPUBLIC SECURITIES' profitable relationship with Armstrong.

**The Structure Of The Princeton
Accounts At REPUBLIC SECURITIES**

20. As set forth more fully below, the structure of the PGM SPV Accounts maintained by Armstrong at REPUBLIC SECURITIES, the defendant, changed from time to time between March 1995 and September 1999. In furtherance of the scheme, those changes were designed to and did the following, to the detriment of the Noteholders and to the benefit of REPUBLIC SECURITIES: (i) allowed Armstrong to commingle Noteholder funds so that assets in one PGM SPV Account could be used to offset losses in another PGM SPV Account or other accounts controlled by Armstrong; (ii) avoided the requirement of allocating Armstrong's trading activity to each of the numerous PGM SPV Accounts; (iii)

hid losses; and (iv) lessened financial and other risks faced by REPUBLIC SECURITIES as a consequence of Armstrong's ever-increasing trading losses.

21. From in or about March 1995, through in or about November 1997, Armstrong generally opened, and REPUBLIC SECURITIES, the defendant, maintained, separate accounts for each Princeton Note (the "First Phase"). In general during this period, each time Armstrong sold a new note, he incorporated, or purported to incorporate, a new PGM SPV to issue the new note. In addition, Armstrong opened a new PGM SPV Account in the name of the issuing PGM SPV at REPUBLIC SECURITIES (the "First Phase Structure"). In most instances, the Noteholders, or their brokers, transferred the funds tendered by the investor as payment for their note directly to the appropriate PGM SPV Account at REPUBLIC SECURITIES. All such funds were held by REPUBLIC SECURITIES through its main offices in New York, New York.

22. During the First Phase, when Armstrong executed trades, those trades were allocated to each of the various PGM SPV Accounts according to instructions given, from time to time, by Armstrong to REPUBLIC SECURITIES. Over time, as the number of PGM SPV Accounts grew and as the daily volume of Armstrong's trades increased, the administrative burden on REPUBLIC

SECURITIES to allocate all the trades increased. During the First Phase, Armstrong's trading activity resulted in net losses to the PGM SPV Account of approximately \$280 million. As these losses mounted, and as the value of the assets in certain PGM SPV Accounts dwindled close to zero, the practice of allocating trades to all accounts resulted in some accounts, from time to time, having negative balances.

23. In or about November 1997, in order to reduce the administrative burdens of allocating each day's trading and in order to reduce credit exposure which those negative balances created for REPUBLIC SECURITIES, the defendant, Armstrong and REPUBLIC SECURITIES agreed to create a new account structure that consolidated Armstrong's trading activity in a smaller number of accounts (the "Second Phase Structure"). The Second Phase Structure, described more fully below, was maintained from in or about November 1997 through in or about November 1998 (the "Second Phase"). As part of the Second Phase Structure, Armstrong and REPUBLIC SECURITIES created eight new accounts held in the name of PGM (the "PGM Trading Accounts"). Thereafter, each of the PGM Trading Accounts was used to trade in particular types of financial instruments. For example, Account No. 32017 was designated as the "Princeton Global Management Index Account" and was used primarily to trade Index futures. Account No. 32011

was designated as the "Princeton Global Management Fixed Yen Account" and was used to buy and sell Japanese Yen and futures contracts for Japanese Yen. All existing trades in the PGM SPV Accounts were transferred to the newly opened PGM Trading Accounts.

24. During the Second Phase, Armstrong and REPUBLIC SECURITIES, the defendant, continued to open new PGM SPV Accounts for new notes as the notes were sold and to deposit funds received from the Noteholders in those new PGM SPV Accounts. However, during the Second Phase, Armstrong generally executed trades on behalf of the PGM SPVs not in the PGM SPV Accounts but instead conducted those trades in the PGM Trading Accounts. The Second Phase Structure, as Armstrong well knew and as REPUBLIC SECURITIES knew or willfully avoided discovering, was not disclosed to the Noteholders and violated several terms of the Princeton Note Agreements by effectively commingling the assets of all the PGM SPV Accounts to fund trading conducted in the name of PGM, a separate entity.

25. During the Second Phase, Armstrong's trading activity continued to result in substantial losses. Between November 1997 and November 1998, Armstrong's trading resulted in net losses in excess of approximately \$200 million.

26. Because the PGM Trading Accounts were not separately funded and because substantial losses were incurred in those accounts, assets in the PGM SPV Accounts were, from time to time, sold and the proceeds used to cover losses incurred in the PGM Trading Accounts. As a result of deceptive practices used by REPUBLIC SECURITIES, the defendant, to record such transactions in its books and records, described more fully in paragraphs 35 and 36, below, the PGM Trading Accounts came to have large negative balances. By in or about July 1998, the combined net value of the PGM Trading Accounts was approximately negative \$212 million.

27. In or about July 1998, internal auditors employed by an affiliate of REPUBLIC SECURITIES, the defendant, brought the negative balances in the PGM Trading Accounts to the attention of the Credit Review Committee of the Board of Directors of REPUBLIC SECURITIES' parent corporation, RNYC (the "Credit Committee"). As noted in a report submitted by the auditors to the Credit Committee (the "1998 Credit Review Report"), these negative balances created potential credit exposure for REPUBLIC SECURITIES because the negative balances were held in the accounts of PGM which was a separate legal entity from each of the various PGM SPVs. Accordingly, the report concluded, REPUBLIC SECURITIES could not look to the

assets held in the approximately 151 separate PGM SPV Accounts to satisfy the negative balances absent a cross-margin or guarantee agreement executed by the PGM SPVs in favor of PGM. These concerns prompted the Credit Committee to recommend, at a September 1998 meeting, that the PGM SPV Accounts and the PGM Trading Accounts be consolidated into a single account. At a subsequent meeting of the Credit Committee in October 1998, the Chairman of the Committee noted that he was "skeptical and suspicious" of Armstrong's activities and that those activities "look[ed] like a Ponzi scheme."

28. REPUBLIC SECURITIES, the defendant, acting upon the Credit Committee's recommendation, agreed with Armstrong to undertake another restructuring (the "Third Phase Structure") of the PGM SPV Accounts and the PGM Trading Accounts in order to allay the Credit Committee's concerns and forestall any directives to close the accounts. This restructuring was not disclosed to the Noteholders and was contrary to provisions of the Princeton Note Agreements and other representations made by Armstrong to the Noteholders. Moreover, the restructuring substantially lessened REPUBLIC SECURITIES' credit exposure while effectively depriving the Noteholders of recourse to the assets they were told would be held in segregated accounts to repay their Princeton Notes.

29. The restructuring occurred in two steps. First, in or about September 1998, REPUBLIC SECURITIES, the defendant, prepared, and Armstrong executed on behalf of certain of the PGM SPVs, a guaranty agreement that pledged the assets of those PGM SPVs as collateral for the negative balances in the PGM Trading Accounts. Second, beginning in or about August 1998, REPUBLIC SECURITIES and Armstrong agreed to construct a series of "sub-accounts" linked to a "Master Account" held in the name of PGM (the "PGM Master Account"). Thereafter, from in or about August through in or about November 1998, Armstrong and REPUBLIC SECURITIES transferred nearly all of the assets in the PGM SPV Accounts, to newly created sub-accounts. After the transfers, in place of each of the PGM SPV Accounts which had held the assets of that PGM SPV in its own name, there was a sub-account ("the PGM SPV Sub-account") which bore the name of the PGM SPV but which was legally held, from REPUBLIC SECURITIES' perspective, in the name of PGM, a separate legal entity. At or about the same time each of the PGM Trading Accounts, with their large negative cash balances, was designated as a sub-account of the PGM Master Account. In this manner, REPUBLIC SECURITIES and Armstrong fraudulently conveyed all of the assets of the PGM SPVs, and all of the deficit balances of the PGM Trading Accounts, to PGM.

30. As REPUBLIC SECURITIES, the defendant, well knew or willfully avoided discovering, this restructuring substantially lessened REPUBLIC SECURITIES' credit exposure while dramatically increasing the credit risks of the Noteholders. The restructuring benefitted REPUBLIC SECURITIES by creating a right of set-off, in favor of REPUBLIC SECURITIES, between the deficit balances in the new PGM Trading Sub-Accounts and the assets in the new PGM SPV Sub-Accounts. At the same time, the restructuring transferred title to all of the assets of the PGM SPVs to the PGM entity, thereby depriving the Noteholders of recourse to the primary assets available to repay their notes.

31. After the Third Phase Structure was implemented, from November 1998 through September 1999, as new Princeton Notes were sold, Armstrong and REPUBLIC SECURITIES, the defendant, created new PGM SPV Sub-Accounts into which new Noteholder funds were deposited. During this period Armstrong's trading activity was booked generally to the PGM Trading Sub-Accounts. Armstrong's continued trading resulted in substantial additional net losses between November 1998 through August 1999 of approximately \$67 million. REPUBLIC SECURITIES was well aware of the losses arising from Armstrong's disastrous trading performance. For example, during this period, the Futures Division President noted that "a doofus flipping a . . . coin

every day" would have more trading success than Armstrong. In total, between March 1995 and September 1999, as REPUBLIC SECURITIES well knew, Armstrong's trading on behalf of all of the Princeton Note-related accounts resulted in net losses of more than approximately \$550 million.

REPUBLIC SECURITIES' Participation In Efforts To Conceal Armstrong's Losses From The Noteholders And To Fraudulently Portray Armstrong's Trading As Profitable

32. In furtherance of the scheme, between 1995 and 1999, Armstrong continued to conceal his trading losses from the Noteholders after he moved the PGM SPV Accounts to REPUBLIC SECURITIES, the defendant. Beginning in or about November 1995, REPUBLIC SECURITIES assisted those efforts in a variety of ways. From time to time, between November 1995 and August 1999, REPUBLIC SECURITIES issued net asset value confirmation letters (the "NAV Letters") for certain PGM SPV Accounts which, as REPUBLIC SECURITIES well knew, falsely represented the value of the assets in those accounts. As REPUBLIC SECURITIES and certain of its officers also knew, the NAV Letters were used by Armstrong to mislead Noteholders and to hide the massive trading losses which Armstrong was incurring. As REPUBLIC SECURITIES also knew, the Noteholders did not receive copies of the monthly statements for the PGM SPV Accounts that were generated by REPUBLIC SECURITIES and that, at least between March 1995 and November

1997, accurately reflected Armstrong's trading activity and the net value of assets in those accounts.

33. Between November 1995 and July 1999, REPUBLIC SECURITIES issued more than approximately 200 NAV letters many of which misrepresented the value of the PGM SPV Accounts to which those letters related. In many instances the NAV Letters were completely false. In other instances, the Futures Division President and other REPUBLIC SECURITIES officers agreed with Armstrong to transfer funds from one PGM SPV Account to another, after-the-fact, in order to bring the balance in the account up to the balance reflected in the NAV Letter, thus making the NAV Letter literally correct, but nonetheless completely misleading.

34. The bulk of the false and fraudulent NAV Letters issued by REPUBLIC SECURITIES, the defendant, concerned individual PGM SPV Accounts and Sub-Accounts. However, in or about August 1999, REPUBLIC SECURITIES provided Armstrong a false and fraudulent letter that purported to reflect the combined balance in a number of the PGM SPV Sub-Accounts. That letter, which stated in part that "as of March 31, 1999, the balances of the 21000 series of accounts held on behalf of Princeton Global Management, Ltd. (21214-21323) was \$369,055,312.19," was false in several material respects. First, the letter falsely portrayed those accounts as separate accounts and omitted to disclose that

those accounts were in fact sub-accounts, subject to a right of set-off against deficit balances in all the related sub-accounts. Second, the letter failed to disclose that the actual net value of the combined assets and liabilities in all of those related sub-accounts was in fact only approximately \$3 million on March 30, 1999, as stated in an NAV report internally circulated by REPUBLIC SECURITIES on March 31, 1999. Indeed, the total cash balance in the PGM SPV Sub-Accounts, approximately \$547 million in both the 21000 and 46000 series of sub-accounts, was offset against the approximately \$544 million in accumulated deficits in the PGM Trading Sub-Accounts.

35. REPUBLIC SECURITIES, the defendant, further assisted Armstrong's efforts to hide losses from his trading activity by inaccurately recording in its books and records certain transactions between the PGM SPV Accounts and the PGM Trading Accounts and sub-accounts. As noted above, after REPUBLIC SECURITIES and Armstrong adopted the Second Phase Structure for the Princeton-related accounts, mounting losses occurred in the PGM Trading Accounts. There were generally insufficient assets in the PGM Trading Accounts to cover the ongoing losses. Accordingly, from time to time, securities and other assets held in the PGM SPV Accounts were liquidated and the cash proceeds of those liquidations were transferred from the PGM

SPV Accounts to futures markets and counterparties to cover the trading losses incurred in the PGM Trading Accounts.

36. In order to accurately reflect these transactions, REPUBLIC SECURITIES, the defendant, should have recorded in its books and records for the PGM SPV Accounts the following four entries: (1) the sales of the securities; (2) an increase in the cash balance from the proceeds of those sales; (3) a transfer of cash out of the PGM SPV Account; and (4) a corresponding decrease in the cash balance of that account. However, in order to mask the fact that assets in the PGM SPV Accounts were being used to fund trading losses incurred by the PGM Trading Accounts, REPUBLIC SECURITIES generally booked the first and second entries noted above to the appropriate PGM SPV Account but falsely and inaccurately booked the third and fourth entries to the PGM Trading Accounts. As a result, over time, REPUBLIC SECURITIES' books and records came to reflect large negative cash balances in the PGM Trading Accounts and large positive cash balances in the PGM SPV Accounts.

37. In furtherance of the scheme, REPUBLIC SECURITIES, the defendant, continued this practice after the creation of the Third Phase Structure through September 1999. Thus, from in or about November 1997 through September 1999, REPUBLIC SECURITIES' books and records, including monthly account statements, falsely

and fraudulently reflected large positive cash balances in many of the PGM SPV Accounts and Sub-Accounts, when in truth and in fact, as REPUBLIC SECURITIES well knew, the cash balances did not exist. As REPUBLIC SECURITIES further knew, or wilfully avoided discovering, this practice assisted Armstrong's efforts to misrepresent to Noteholders and others the value of the assets in the PGM SPV Accounts.

38. From time to time, in furtherance of the scheme REPUBLIC SECURITIES, the defendant, falsely and fraudulently represented to existing Noteholders, potential investors, and others, that Armstrong was a successful trader and omitted to disclose Armstrong's massive trading losses. For example, in the fall of 1996, the President of REPUBLIC SECURITIES falsely told representatives for one of Armstrong's potential investors that, while REPUBLIC SECURITIES did not track Armstrong's trading results officially, the President of REPUBLIC SECURITIES knew from his monitoring of the accounts that Armstrong was extremely successful.

39. As noted above, in or about July 1998, internal auditors employed by RNYC discovered the large negative cash balances in the PGM Trading Accounts. In furtherance of the scheme and in order to avoid any disruption of its profitable client relationship with Armstrong, REPUBLIC SECURITIES, the

defendant, falsely and fraudulently represented to those auditors that the negative balances were due to errors in booking outgoing wire transfers and omitted to disclose that the negative balances were largely due to Armstrong's massive trading losses.

**REPUBLIC SECURITIES' Participation In The
Commingling Of Investor Funds And The Use Of
New Noteholder Funds To Redeem Maturing Princeton Notes**

40. Between March 1995 and September 1999, REPUBLIC SECURITIES, the defendant, executed numerous instructions from Armstrong to transfer funds among and between various PGM SPV Accounts and Sub-Accounts, and the PGM Trading Accounts and Sub-Accounts. In furtherance of the scheme, and in order to maintain its profitable relationship with Armstrong, REPUBLIC SECURITIES continued to execute such transfer instructions long after several senior officers of REPUBLIC SECURITIES came to understand that Armstrong was improperly using funds obtained from the sale of new Princeton Notes to pay principal and interest due on older Princeton Notes.

THE CONSPIRACY

41. From in or about November 1995 through in or about September 1999, in the Southern District of New York and elsewhere, REPUBLIC SECURITIES, the defendant, together with Martin A. Armstrong and others known and unknown, unlawfully, willfully, and knowingly, combined, conspired, confederated, and

agreed together and with each other to violate the laws of the United States, to wit: (a) to commit securities fraud in violation of Title 15, United States Code, Sections 78j(b) and 78ff; and Title 17, Code of Federal Regulations, Section 240.10b-5; (b) to commit commodities fraud in violation of Sections 4b(a)(2)(i) and 9 of the Commodity Exchange Act, Title 7, United States Code, Section 6b(a)(2)(i); and (c) to commit commodities fraud in violation of Sections 4b(a)(2)(iii) and 9 of the Commodity Exchange Act, Title 7, United States Code, Section 6b(a)(2)(iii).

OBJECTS OF THE CONSPIRACY

42. It was a part and an object of this conspiracy that REPUBLIC SECURITIES, the defendant, together with Martin A. Armstrong and their co-conspirators not named as defendants herein, unlawfully, willfully, and knowingly, directly and indirectly, by the use of the means and instrumentalities of interstate commerce, of the mails, and of a facility of a national securities exchange would and did use and employ, in connection with the purchase and sale of securities, manipulative and deceptive devices and contrivances, in violation of Title 17, Code of Federal Regulations, Section 240.10b-5, by (a) employing devices, schemes, and artifices to defraud, (b) making untrue statements of material facts and omitting to state material facts

necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, and (c) engaging in acts, practices, and courses of business which operated and would operate as a fraud and deceit upon the investing public and other persons and entities, in connection with the purchase and sale of securities, all in violation of Title 15, United States Code, Sections 78j(b) and 78ff, and Title 17, Code of Federal Regulations, Section 240.10b-5.

43. It was a further part and an object of the conspiracy that REPUBLIC SECURITIES, the defendant, and Martin A. Armstrong, together with their co-conspirators not named as defendants herein, unlawfully, willfully and knowingly, in and in connection with orders to make, and the making of, contracts of sale of commodities for future delivery, made and to be made for and on behalf of other persons, such contracts for future delivery being and being able to be used for hedging transactions in interstate commerce in such commodities and for determining the price basis of such transactions in interstate commerce in such commodities, would and did cheat and defraud and attempt to cheat and defraud such other persons, in violation of Sections 4b(a)(2)(i) and 9 of the Commodity Exchange Act, Title 7, United States Code, Sections 6b(a)(2)(i) and 11.

44. It was a further part and an object of the conspiracy that REPUBLIC SECURITIES, the defendant, and Martin A. Armstrong, together with their co-conspirators not named as defendants herein, unlawfully, willfully and knowingly, in and in connection with orders to make, and the making of, contracts of sale of commodities for future delivery, made and to be made for and on behalf of other persons, such contracts for future delivery being and being able to be used for hedging transactions in interstate commerce in such commodities and for determining the price basis of transactions in interstate commerce in such commodities, would and did willfully deceive and attempt to deceive such other persons in regard to such orders and contracts and the disposition and execution of such orders and contracts, and in regard to acts of agency performed with respect to such orders and contracts for such persons, in violation of Sections 4b(a)(2)(iii) and 9 of the Commodity Exchange Act, Title 7, United States Code, Sections 6b(a)(2)(iii) and 11.

MEANS AND METHODS OF THE CONSPIRACY

45. Among the means and methods by which REPUBLIC SECURITIES, the defendant, together with Martin A. Armstrong and their co-conspirators would and did carry out the conspiracy were the following:

a. REPUBLIC SECURITIES, Armstrong, and their co-conspirators, fraudulently represented to Noteholders and others that the proceeds from the sale of their Princeton Notes would be held in segregated accounts and not commingled.

b. REPUBLIC SECURITIES, Armstrong, and their co-conspirators issued false NAV Letters used to deceive the Noteholders and to conceal Armstrong's massive trading losses, the commingling of the investors' assets, and the misappropriation of investors' assets.

c. REPUBLIC SECURITIES, Armstrong, and their co-conspirators, falsely represented that Armstrong's trading activity had been successful and had generated net profits.

d. REPUBLIC SECURITIES, Armstrong, and their co-conspirators caused assets to be transferred between various PGM SPV Accounts and Sub-Accounts for the purpose of paying maturing Princeton Notes with assets of more recently issued Princeton Notes to conceal losses, to deceive investors concerning the disposition of their assets, to lull investors into maintaining their investments in Princeton Notes, and to induce investors into making new investments in Princeton Notes.

e. REPUBLIC SECURITIES, Armstrong and their co-conspirators converted and misappropriated assets in PGM SPV Accounts and Sub-Accounts to cover losses incurred as a result of

trades in commodities and futures that were executed in the PGM Trading Accounts and Sub-Accounts.

f. REPUBLIC SECURITIES maintained books and records and generated monthly account statements for the PGM SPV Accounts and Sub-Accounts which falsely and fraudulently overstated the cash balances in certain of those accounts and failed to reflect that REPUBLIC SECURITIES applied the assets in those accounts as margin collateral for commodity and futures trades executed in the PGM Trading Accounts and Sub-Accounts.

OVERT ACTS

46. In furtherance of the conspiracy and to effect its unlawful objects, REPUBLIC SECURITIES, the defendant, together with Martin A. Armstrong and their co-conspirators, committed the following overt acts, among others, in the Southern District of New York and elsewhere:

a. From in or about February 1995 through in or about August 1998, REPUBLIC SECURITIES established and maintained the PGM SPV Accounts and held cash in REPUBLIC SECURITIES' accounts at Republic Bank in New York, New York.

b. In or about November 1997, REPUBLIC SECURITIES, established and maintained the PGM Trading Accounts.

c. In or about August 1998, REPUBLIC SECURITIES, transferred funds and other assets from the PGM SPV Accounts to the PGM SPV Sub-Accounts.

d. From in or about no later than 1996 to in or about August 1999, Armstrong and others sold millions of dollars of Princeton Notes to Japanese investors and transferred the proceeds through Republic Bank to the PGM SPV Accounts and Sub-Accounts at REPUBLIC SECURITIES.

e. From in or about November 1995 through in or about August 1999, REPUBLIC SECURITIES, issued approximately 200 hundred NAV Letters.

f. In or about September 1996, the President of REPUBLIC SECURITIES falsely and fraudulently stated to a representative of a potential Noteholder that Armstrong's trading activity was extremely successful.

(Title 18, United States Code, Section 371).

COUNT TWO

(Securities Fraud)

The United States Attorney further charges:

47. The allegations set forth in paragraphs 1 through 40, 45 and 46 are repeated and realleged as if set forth fully herein.

48. From in on or about November 1995 through September 1999, in the Southern District of New York and elsewhere, REPUBLIC SECURITIES, the defendant, unlawfully, willfully, and knowingly, directly and indirectly, by use of the means and instrumentalities of interstate commerce, the mails and the facilities of national securities exchanges, did use and employ, in connection with the purchase and sale of securities, manipulative and deceptive devices and contrivances, in violation of Title 17, Code of Federal Regulations, Section 240.10b-5, by (a) employing devices, schemes and artifices to defraud; (b) making untrue statements of material facts and omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaging in acts, practices and courses of business which operated and would operate as a fraud and deceit upon persons, in connection with the purchase and sale of securities, to wit, purchasers of the Princeton Notes.

(Title 15, United States Code, Sections 78j(b) & 78ff;
Title 17, Code of Federal Regulations, Section 240.10b-5;
and Title 18, United States Code, Section 2).

MARY JO WHITE
United States Attorney