U. S. Department of Justice

United States Attorney
Northern District of Illinois

Patrick J. Fitzgerald
United States Attorney

Federal Building
219 South Dearborn Street, Fifth Floor
Chicago, Illinois 60604
(312) 353-5300

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www.usdoj.gov/usao/iln

PRESS CONTACTS:
AUSA Manish Shah (312)353-0517
Randall Samborn (312)353-5318

CANOPY FINANCIAL CO-FOUNDER JEREMY BLACKBURN FACING FEDERAL FRAUD CHARGES ALLEGING DECEIT IN $60 MILLION STOCK SALE

CHICAGO — A co-founder of Canopy Financial, Inc., a health care transaction software company, is facing federal fraud charges alleging that he defrauded investors by creating and distributing false information about Canopy's financial condition. The defendant, **Jeremy Blackburn**, allegedly deceived a private equity firm that invested more than $60 million in Canopy stock this past summer by submitting a bogus auditor's report and falsified bank statements to the investment firm. Blackburn allegedly fraudulently obtained more than $2 million of the investment funds for personal expenses and luxury items, and used a false bank statement in an attempt to obtain a mortgage on a new home. Blackburn, who resigned recently as Canopy's president and chief operating officer, was charged with wire fraud in a criminal complaint filed Monday and unsealed late today, announced Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois, and Robert D. Grant, Special Agent-in-Charge of the Chicago Office of the Federal Bureau of Investigation.

Blackburn, 36, of Malibu, Calif., was released on a $1 million unsecured bond after appearing late this afternoon before Magistrate Judge Nan Nolan in U.S. District Court in Chicago.

Blackburn was one of three co-founders of Canopy, which was established in 2004, and entered bankruptcy proceedings last week. A special committee of outside directors reported information to federal law enforcement officials and is cooperating with the continuing investigation, officials said.

Separately, the U.S. Securities and Exchange Commission filed a civil enforcement action against Canopy and Blackburn that was unsealed today in Federal Court in Chicago. Mr. Fitzgerald noted the cooperative efforts of the SEC's Chicago Regional Office.

Blackburn led the company's daily business operations, sales, account management, marketing, engineering and product development. The privately held company, which has offices in Chicago, Plainsboro, N.J., and San Francisco, developed and provided software programs for banks and health care payers for payment processing and administration of health-related savings and spending accounts. Canopy's products related to expense tracking, online bill payment, claims processing and account management for healthcare transactions.

According to the charges, Canopy agreed earlier this year to sell shares of preferred stock to certain investors on two separate closing dates, and agreed to provide the purchasers with audited financial statements for 2008. The agreement also provided that Blackburn and the other two co-founders, identified in the charges as Individuals A and B, could redeem up to 10 percent of their preferred and common stock in Canopy.

On July 15, 2009, Canopy sold approximately $63 million of a class of preferred stock to several parties, including shares totaling slightly more than $60 million to two entities affiliated with Spectrum Equity Investors, which wire transferred the funds to Canopy. On Aug. 19, 2009, Canopy sold almost $12 million more of the same class of preferred stock to various investors, including a small portion of that amount to the same two Spectrum entities. At the same time, Blackburn redeemed a portion of his stock for approximately $1.6 million, and Individual B, who served as Canopy's chief technology officer, redeemed shares totaling approximately $975,000.

After Canopy received Spectrum's fraudulently obtained investment, Blackburn allegedly obtained unauthorized transfers from Canopy's financial accounts of more than $1 million to a credit card company account, a corporate jet leasing company, and a luxury automobile dealership, the charges allege. In addition, approximately $1.17 million was transferred from Canopy into two of Blackburn's personal bank accounts, allegedly without corporate authorization.

The complaint alleges that Blackburn fraudulently obtained money from Spectrum by creating and distributing false information about Canopy's financial condition, including a purported independent auditor's report for 2007 and 2008. After creating the false financial information, Blackburn allegedly caused the phony auditor's report, purportedly prepared by the accounting firm KPMG, to be sent to Spectrum on June 30, 2009, to complete the stock purchase agreement.

The charges allege that, according to KPMG, the firm never performed an audit of Canopy's financial condition and never drafted an independent auditor's report for the company. When KPMG learned of the purported audit report, it sent a letter to Canopy on Nov. 3, 2009, demanding that it stop using the false document and stating that it had never performed an audit of Canopy's financial statements. On Nov. 12, 2009, Canopy's general counsel sent a letter to Spectrum stating that the purported KPMG audit documents were not authorized by KPMG, which had never audited Canopy, so they could not be relied upon in any investment dealings with Canopy.

In addition to the phony audit report, Blackburn and Individual B allegedly provided Spectrum with falsified bank statements for the months of January through June 2009 in response to a request by Spectrum. The statements, which purported to represent a Canopy account at Northern Trust Bank, showed balances from January through June ranging between $5.7 million and nearly $9 million. In fact, the charges allege, no such Canopy account existed and the only Canopy account at Northern Trust, which was held for the benefit of one of Canopy's Health Savings Account clients, had a balance at the end of June 2009 of just under $87,000.

In late July 2009, Blackburn applied for a mortgage on a new home in Malibu and allegedly submitted the same phony Northen Trust statement, but this time purporting to be of his own personal bank account, showing a balance of just under $9 million at the end of June 2009. When Northern Trust contacted Canopy about the purported statement, Blackburn allegedly represented that he was not going through with the loan and asked that the documents be destroyed.

The government is being represented by Assistant U.S. Attorneys Manish Shah and Stephanie Zimdahl.

Wire fraud carries a maximum penalty of 20 years in prison and a $250,000 fine and restitution is mandatory. The Court may also impose a fine totaling twice the loss to any victim or twice the gain to the defendant, whichever is greater. If convicted, however, the Court would determine a reasonable sentence to impose under the advisory United States Sentencing Guidelines.

A complaint contains only charges and is not evidence of guilt. The defendant is presumed innocent and is entitled to a fair trial at which the government has the burden of proving guilt beyond a reasonable doubt.

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