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FORMER LAKE SHORE ASSET MANAGEMENT DIRECTOR SENTENCED TO 20 YEARS FOR DEFRAUDING 900 INVESTORS IN $294 MILLION SCHEME

CHICAGO — The former managing director of a hedge fund that was forced into receivership by U.S. government regulators was sentenced today to 20 years in federal prison for fraudulently soliciting and obtaining approximately $294 million from some 900 investors worldwide. The defendant, **Philip J. Baker**, who controlled Lake Shore Asset Management Ltd., and the Lake Shore Group of Companies, which purportedly traded clients' funds in several commodity futures pools, had pleaded guilty to wire fraud in August.

Baker, 46, a Canadian citizen who lived in London and later Hamburg, Germany, remained in federal custody following his extradition in December 2009 from Hamburg, where he was arrested in July 2009. He was indicted in February 2009.

U.S. District Judge John Darrah imposed the maximum 20-year sentence, which the government recommended under the terms of Baker's plea agreement. In addition, Judge Darrah imposed an order, which Baker had agreed to, requiring him to pay restitution totaling more than $154.8 million, representing the outstanding losses to investors.

The sentence was announced by 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.

According to the plea agreement, between 2002 and September 2007, as a result of Baker's fraudulent solicitations, Lake Shore obtained approximately $294 million from approximately 900 investors. Baker admitted that he misappropriated at least $30 million for his own use and for the use of another Lake Shore director. He also admitted Lake Shore incurred several million dollars in net trading losses during the same time period that he misrepresented that Lake Shore's trading was profitable.

Baker held himself out as a co-founder and managing director of Lake Shore, and the managing director of the "Lake Shore Group of Companies." The Lake Shore companies advertised that they operated several commodity pools — investments that combined the funds of many investors for the purpose of trading commodity futures. Baker's solicitations to invest in the Lake Shore commodity pools withheld material information and made the following false representations:

- that the commodity pools generated positive returns between January 2002 and September 2007, including 22.48 percent in 2003, 29.81 percent in 2004, and 18.95 percent in 2005, when Lake Shore actually experienced millions of dollars in trading losses during those years;

- that no management fee would be charged, except by one of the commodity pools, that no operational expenses would be passed on to the investors, and that participants would pay only a "profit incentive fee" if the pools generated profits, when in fact Baker charged investors more than $30 million in broker fees, and converted millions of dollars in investor funds to his own use even though the pools were not profitable; and

- that Baker co-founded Lake Shore in 1993, and that Lake Shore was regulated by U.S. authorities, when in fact Baker was not officially associated with any regulated Lake Shore entity until January 2007. The actual principals of a regulated entity that used the name "Lake Shore Inc."

> repeatedly told its regulator, the National Futures Association (NFA), that it was dormant and conducted no business between 2002 and 2007, thus avoiding audit and oversight.

On June 13, 2007, NFA regulators reviewed a web site associated with Lake Shore and saw a press release stating, "In its 13-year history, Lake Shore's flagship 'Program I' has generated a 28.27% compound annual return." The next day, NFA staff went to Lake Shore Ltd.'s office on North Michigan Avenue in Chicago to conduct an audit to verify the profit claim on the web site and because Lake Shore Ltd. had been registered with the NFA only since January 2007. Lake Shore did not provide the NFA with certain records it was required by law to keep and produce to regulators.

Later that month, the Commodity Futures Trading Commission (CFTC), filed a civil lawsuit against Lake Shore Ltd. in Federal Court in Chicago, and obtained a court order freezing its assets and requiring the company to produce books and records verifying its profit claims and identifying investors. In that civil case, U.S. District Judge Blanche M. Manning issued several orders directing Lake Shore Ltd., other Lake Shore entities, and Baker himself to produce books and records. Judge Manning also appointed a receiver to gather all available assets for distribution to the defrauded investors. The receiver recovered and returned to investors approximately $120 million to date. Baker never produced the documents to the CFTC or receiver, but instead took steps to hide the records in violation of the court orders.

The CFTC and the receiver provided valuable assistance in the case. The government was represented by Assistant U.S. Attorney Clifford Histed.

The Financial Fraud Enforcement Task Force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes. For more information on the task force, visit: www.StopFraud.gov.

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