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FOR IMMEDIATE RELEASE
FRIDAY JUNE 1, 2012
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CEO AND HEAD TRADER OF BANKRUPT SENTINEL MANAGEMENT INDICTED IN ALLEGED $500 MILLION FRAUD SCHEME PRIOR TO FIRM'S 2007 COLLAPSE

CHICAGO — The chief executive officer and the head trader of the bankrupt Sentinel Management Group, Inc., were indicted on federal fraud charges for allegedly defrauding more than 70 customers of more than $500 million before the firm collapsed in August 2007, federal law enforcement officials announced today. Sentinel, which was located in suburban Northbrook, managed short-term cash investments of futures commission merchants, commodity pools, hedge funds, at least one pension fund, and other customers. The defendants, **Eric A. Bloom** and **Charles K. Mosley**, allegedly misappropriated securities belonging to customers by using them as collateral for a loan that Sentinel obtained from Bank of New York Mellon Corp. (BoNY) that was in part used to purchase millions of dollars worth of high-risk, illiquid securities not for customers, but for a trading portfolio maintained for the benefit of Sentinel's officers, including Mosley, Bloom, certain Bloom family members, and corporations controlled by the Bloom family.

Bloom, the president and CEO of Sentinel who was responsible for its day-to-day operations, allegedly misled customers four days before Sentinel declared bankruptcy by blaming Sentinel's financial problems on the "liquidity crisis" and "investor fear and panic" when he knew that the actual reasons for Sentinel's financial problems were its purchase of high-risk, illiquid securities, excessive use of leverage, and the resulting indebtedness on the BoNY credit line, which had a balance exceeding $415 million on Aug. 13, 2007. Sentinel declared bankruptcy on Aug. 17, 2007.

Bloom, 47, of Northbrook, and Mosley, 48, of Vernon Hills, will be arraigned on a date yet to be scheduled in U.S. District Court in Chicago. They were each charged with 18 counts of wire fraud, one count of securities fraud, and one count of making false statements to an employee pension plan in a 20-count indictment that was returned by a federal grand jury yesterday. The indictment seeks forfeiture of more than $500 million.

The case is one of the largest criminal financial fraud cases ever prosecuted in Federal Court in Chicago. The indictment was announced by Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois; Robert D. Grant, Special Agent-in-Charge of the Chicago Office of the Federal Bureau of Investigation; and James Vanderberg, Special Agent-in-Charge of the U.S. Department of Labor Office of Inspector General in Chicago. Also assisting in the investigation were the Labor Department's Employee Benefits Security Administration, the Commodity Futures Trading Commission, and the Securities and Exchange Commission. The CFTC and the SEC filed separate civil enforcement lawsuits following the collapse of Sentinel, which remains in bankruptcy proceedings.

According to the indictment, between January 2003 and August 2007, Bloom and Mosley fraudulently obtained and retained under management more than $500 million of customers' funds by falsely representing the risks associated with investing with Sentinel, the use of customers' funds and securities, the value of customers' investments, and the profitability of investing with Sentinel. Bloom and Mosley allegedly used customers' securities invested in Sentinel's "125 Portfolio" and its "Prime Portfolio" as collateral for its credit line with BoNY to purchase millions of dollars worth of high-risk, illiquid securities, some of which were collateralized debt obligations (CDOs). Mosley allegedly purchased the CDOs from two brokerage firms and received substantial personal benefits from those firms in the form of gifts, vacations, expensive tickets to sporting events, and parties.

The indictment alleges that Bloom and Mosley lied about customers' investments and engaged in an undisclosed trading strategy with Sentinels' own "House Portfolio," which they traded for the benefit of themselves and Bloom family members. In addition to his salary, Mosley received an annual bonus based on the profitability of the House Portfolio. The undisclosed trading strategy included extensive leverage and a high concentration of CDOs that was inconsistent with the representations Bloom and Mosley made to customers regarding separate investment portfolios. The undisclosed strategy affected all customers, regardless of the trading portfolio in which they were invested, because the defendants allegedly used customers' securities as collateral when they borrowed money from the BoNY and so-called "repo" lenders, and then used the borrowed money to carry out the undisclosed trading strategy. (Under a repurchase agreement, known as a "repo," a party such as Sentinel, effectively a borrower, sold securities to a counterparty, effectively a lender, with an agreement to repurchase the securities at a later date.)

"The use of their customers' securities as collateral allowed the defendants to borrow more money than Sentinel otherwise could, subjected the customer securities to potential legal claims by creditors, and allowed the defendants to employ leverage to the extent that Sentinel itself, and all of the customer portfolios, were at increased risk of adverse market movements and insolvency," the indictment states.

As part of the fraud scheme, Bloom and Mosley allegedly falsely represented to customers the returns generated by the securities in each Sentinel portfolio. Rather than giving customers the actual returns generated by a particular portfolio, the defendants on a daily basis pooled the trading results for all of Sentinel's portfolios and then allocated the returns to the various portfolios as they saw fit, the indictment alleges. To conceal the scheme, to encourage customers to invest additional funds, and to otherwise lull customers, Bloom and Mosley on a daily basis allegedly caused false and misleading account statements to be created and distributed to customers, including via email. These account statements reported returns earned by customers without disclosing that the returns actually were allocated by the defendants and were not the result of the market performance of the customers' particular portfolios. The account statements also listed the purported value of securities being held by each portfolio without disclosing that the securities were being used as collateral for Sentinel's loan from BoNY. The daily account statements were also misleading in that many of them, particularly those issued in July and August 2007, contained incorrect securities and inflated values of certain securities, the indictment alleges.

In July and August 2007, when Bloom and Mosley knew that Sentinel was approaching insolvency, and that defaulting on the over- $400 million bank line of credit was a real possibility, they allegedly caused millions of dollars in investments in Sentinel to be obtained and retained by concealing Sentinel's true financial condition from customers.

Each count of wire fraud carries a maximum penalty of 20 years in prison and a $250,000 fine, or, alternatively, a fine totaling twice the loss to any victim or twice the gain to the defendant, whichever is greater, and restitution is mandatory. Securities fraud and making false statements to a pension plan each carry a maximum penalty of five years in prison and a $250,000 fine. If convicted, the Court must impose a reasonable sentence under federal statutes and the advisory United States Sentencing Guidelines.

The government is being represented by Assistant U.S. Attorneys Clifford C. Histed and Patrick M. Otlewski.

The investigation falls under the umbrella of the Financial Fraud Enforcement Task Force, which 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.

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

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