



*United States Attorney
Southern District of New York*

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**MANHATTAN U.S. ATTORNEY CHARGES PRESIDENT
OF RAI HOTEL ACQUISITION, INC., WITH \$1.5 MILLION
INVESTMENT SCHEME**

PREET BHARARA, the United States Attorney for the Southern District of New York, and RONALD J. VERROCHIO, the Inspector-in-Charge of the New York Office of the United States Postal Inspection Service ("USPIS"), announced today that ROBERT E. MCDONALD, President of RAI Hotel Acquisition, Inc., ("RAI, Inc."), was arrested and charged with securities fraud, wire fraud, and mail fraud in connection with a \$1.5 million scheme in which MCDONALD falsely told an investor that the investor's funds would be used towards the purchase of more than \$100 million worth of hotels. Instead, MCDONALD spent the investor's funds on, among other things, a variety of personal expenses. MCDONALD was arrested this morning in Brooklyn, New York, and appeared before U.S. Magistrate Judge RONALD L. ELLIS this afternoon in Manhattan federal court.

According to the Complaint unsealed today in Manhattan federal court:

In May 2009, MCDONALD, on behalf of RAI, Inc., entered into an agreement to buy a portfolio of approximately 14 hotels located in college towns in the Midwest (the "Midwest Hotel Portfolio") for a total of approximately \$108 million. MCDONALD then contacted an individual who already owned and managed several hotels (the "Hotel Investor") and solicited \$8 million to complete the purchase. He told the Hotel Investor that RAI, Inc. would combine the Hotel Investor's funds with \$22 million in existing assets and would then borrow the remaining funds to complete the purchase. To show that RAI, Inc., had adequate funds to complete the transaction, MCDONALD e-mailed the Hotel Investor a fake statement from JP Morgan Chase which showed that he had assets of \$88 million. MCDONALD also e-mailed the Hotel

Investor a phony letter from JP Morgan Chase stating that RAI, Inc., "has under management in the treasury services management division of our global trades department approximately \$15,456,792.28." In fact, there was no RAI, Inc., account at all at JP Morgan Chase. Based in part on these assurances, the Hotel Investor wired approximately \$1.5 million to a bank account that MCDONALD had provided in return for a 20% ownership interest in

MCDONALD, however, did not complete the purchase of the Midwest Hotel Portfolio. Instead, MCDONALD diverted substantial portions of the Hotel Investor's \$1.5 million investment to personal expenses, including, among other things, dental work, Florida real estate, and the payment of restitution that MCDONALD owed victims from a prior fraud conviction. For example, MCDONALD used \$189,663 of the Hotel Investor's money to purchase a residential property in Tampa, Florida.

MCDONALD is charged with one count of securities fraud, one count of wire fraud, and one count of mail fraud. MCDONALD faces a statutory maximum sentence of 20 years on each count, resulting in a total statutory maximum sentence of 60 years in prison. MCDONALD also faces a fine on the securities fraud count of the greater of \$5 million, or twice the gross gain or gross loss from the offense, and a fine on the wire fraud and mail fraud counts of the greater of \$250,000, or twice the gross gain or gross loss from the offense.

Mr. BHARARA praised the work of the UPSIS. He added that the investigation is continuing.

This case was brought in coordination with President BARACK OBAMA's Financial Fraud Enforcement Task Force, on which Mr. BHARARA serves as a Co-Chair of the Securities and Commodities Fraud Working Group. President OBAMA established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated, and proactive effort to investigate and prosecute financial crimes. The 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.

Assistant U.S. Attorney ARLO DEVLIN-BROWN is in charge of the prosecution.

The allegations contained in the Complaint are merely accusations, and the defendant is presumed innocent unless and until proven guilty.

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