

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

UNITED STATES OF AMERICA)	Crim. No. 10-cr-10319 MLW
)	
v.)	18 U.S.C. §1343 (Wire Fraud)
)	18 U.S.C. §2 (Aiding and Abetting)
)	26 U.S.C. §7206
)	(Subscribing False Tax Document)
(1) CRAIG A. KARLIS and)	26 U.S.C. §7203
(2) AHMET DEVRIM AKYIL,)	(Failure to File Tax Returns)
)	18 U.S.C. §981 (Criminal Forfeiture)
Defendants)	18 U.S.C. §2461 (Criminal Forfeiture)

INDICTMENT

The Grand Jury charges:

INTRODUCTION

At all times relevant to the charges in this Indictment:

1. CRAIG A. KARLIS, AHMET DEVRIM AKYIL, and G.P. were individuals living in Massachusetts. KARLIS and AKYIL were the founders and original owners of Boston Trading and Research LLC (“BTR”), a foreign currency trading company based in Boston, Massachusetts.

2. KARLIS and AKYIL started BTR in approximately the spring of 2007. In approximately August 2007, G.P. joined BTR as part owner and chief technology officer. At that point, KARLIS and AKYIL each owned 40% of the company and G.P. was given a 20% interest in BTR. AKYIL was the chief foreign currency trader and KARLIS was the “Managing Director.” In approximately August 2008, however, AKYIL bought out KARLIS’s share of the company, so that AKYIL then owned 80% of BTR and G.P. continued to own 20%.

3. BTR recruited customers to open accounts with BTR, so that AKYIL could trade the customers' money in the foreign currency exchange ("FOREX") market.

FOREX Trading

4. FOREX trading is the buying and selling of foreign currency. FOREX traders make money by buying foreign currency at a lower exchange rate and selling it at a higher one. To execute its FOREX trades, BTR had accounts with "counterparties" – other FOREX companies to whom it would sell, and from whom it would buy, foreign currency.

5. In the FOREX industry, a currency trade is considered "open" when the trader has purchased, and is holding, foreign currency. The trade is "closed" once the trader sells the foreign currency and is once again holding U.S. dollars. During the time that the trade is open, the investment is at risk because the exchange rate, and thus the profit or loss on the trade, can fluctuate. Once the trade is closed, the investment is no longer at risk – the trader has realized either the profit or the loss from the trade.

BTR's Business

6. From its inception in 2007 until September 2008, BTR maintained its principal place of business in Boston, Massachusetts. During most of 2008, BTR had approximately 20 employees.

7. When customers opened accounts with BTR, they were given instructions to download BTR software onto their own computer. Using that software, customers could log on to their BTR account and view their account activity via BTR's computerized customer platform but could not make trades themselves.

8. In addition, at approximately 5:00 p.m. each day, BTR sent each customer, by e-mail, an account statement showing the customer's account balances, open positions, and unrealized gains or losses.

9. BTR had a number of accounts at Sovereign Bank, and later at Bank of America. These accounts included customer funds accounts, into which BTR's customers transferred funds to be traded by BTR on their behalf. These accounts also included operating accounts, which were used to pay the operating expenses of BTR, among other things. AKYIL and KARLIS additionally each had BTR expense accounts. AKYIL and KARLIS were the authorized signors for most of the company's bank accounts.

10. As of July 2008, BTR had approximately 1200 customers and more than \$35 million of customer money under management.

THE SCHEME TO DEFRAUD

11. In order to induce customers to entrust their money to BTR, KARLIS, AKYIL and others made a series of false representations to customers about how BTR handled customer money and about how BTR minimized trading risks and potential trading losses. Once customers opened accounts at BTR, KARLIS and AKYIL diverted customer money for their own use and concealed this misappropriation and self-dealing from customers by manipulating the computerized customer platform and the e-mailed account statements.

12. KARLIS, AKYIL and others falsely represented to customers and prospective customers (collectively, "customers") that (1) BTR traded customer money for the customers' benefit in the FOREX market; (2) BTR was compensated based on a percentage of any profits generated by the trading; (3) BTR kept customer money in a custodial bank account for which the

bank had responsibility; (4) BTR's computerized customer platform and e-mail account statements allowed customers to see all trades BTR made with their money; (5) as a way to reduce risk, once AKYIL had made the customers a 5% profit for the month, he stopped trading customer money until the beginning of the next month; (6) AKYIL kept trades open for only a short period of time – generally not more than a few hours – in order to limit risk; and (7) if a customer account lost a pre-set percentage of its value (usually 30%), BTR's computer system automatically closed all trades in that account and BTR did no further trading without express permission from the customer.

13. KARLIS and AKYIL knowingly made some of these false representations directly to customers themselves and authorized others to make similar representations to customers. BTR's marketing literature and website also contained these false representations.

14. Once they obtained customer money, KARLIS, AKYIL and others concealed from the customers that BTR was trading with customer money for its own benefit, was using customer money to pay its operating expenses, and that KARLIS and AKYIL were using customer money for their own personal expenses. KARLIS and AKYIL also misled customers by manipulating the customer platform and e-mail notifications to hide trades. Finally, on various occasions, as KARLIS knew, AKYIL concealed from BTR's customers that he had ignored the draw-down limits established by customers and continued trading even after he had lost more than 30% of the customers' funds.

Diversion of Customer Funds

15. KARLIS, AKYIL, and others told customers that BTR traded customer money in the FOREX market and was compensated only by a percentage of the profits generated by the trading, plus a nominal fee per trade.

16. In fact, as KARLIS and AKYIL knew, from BTR's founding in 2007, BTR was undercapitalized, meaning that there was insufficient seed money or other funding to operate the company. Therefore, almost from the moment it first received customer funds, BTR diverted a portion of those funds to pay operating expenses, including salaries. KARLIS and AKYIL also misappropriated customer funds to pay for personal expenses.

17. As a result of this misappropriation, there was a gap between the amount that BTR owed its customers – that is, the amount of money shown in the daily customer account statements – and the actual amount of money that BTR had in its bank accounts and trading accounts at the counterparties. KARLIS, AKYIL and G.P. discussed this shortfall, which they referred to as “the hole,” on a regular basis. KARLIS and AKYIL concealed “the hole” from BTR's customers on the computerized customer platform and account statements.

BTR's Compensation

18. KARLIS, AKYIL, and others told customers that BTR's compensation was limited to 30% of the customers' trading profit, along with a small fee of \$10 per trade to cover BTR's expenses. Thus, as represented to the customers, if the customers did not make a profit, BTR was not paid.

19. In fact, KARLIS, AKYIL, and G.P. did not limit what BTR took to only 30% of the customer profit. Rather, KARLIS and AKYIL used millions of dollars from BTR's customer

accounts to pay BTR's business expenses and to pay for their own personal expenses, such as houses, cars, and jewelry. KARLIS and AKYIL concealed this misappropriation from BTR's customers on the computerized customer platform and account statements.

Custodial Bank Account

20. KARLIS, AKYIL, and others told customers that BTR kept customer money in a custodial bank account for which the bank had responsibility.

21. In fact, as KARLIS and AKYIL knew, BTR had only one custodial account, and BTR did not open that account until approximately July 2008 – approximately one year after BTR began receiving and trading customer money. That account contained only a small percentage of total customer funds under management. The other customer funds accounts, as well as the counterparty accounts where BTR often maintained much of the customer funds, were not custodial accounts. KARLIS and AKYIL regularly transferred money out of these accounts without the approval of bank officials.

Computerized Customer Platform

22. KARLIS, AKYIL, and others told customers that BTR's computerized customer platform and e-mail account statements allowed customers to see all trades BTR made with their money.

23. In fact, as KARLIS and AKYIL knew, the customer platform was not linked to BTR's trading accounts at the counterparties. Thus, when AKYIL placed a trade with one of the counterparties, the trade did not automatically show up on the customer platform. Rather, AKYIL could choose whether or not to manually enter a particular trade on the customer platform to allow the customers to see the trade.

24. As KARLIS knew, AKYIL posted only a portion of the counterparty trades on the customer platform. Thus, contrary to BTR's representations, the real-time information available to customers via the customer platform, as well as the daily and monthly e-mailed account statements, did not show all of the trades that BTR placed at the counterparties using customer money. In this way, KARLIS and AKYIL concealed from customers that BTR was using customer funds to conduct FOREX trades for BTR's own benefit.

Limited Monthly Trading

25. KARLIS, AKYIL, and others told customers that once AKYIL had made the customers a 5% profit for the month, he stopped trading customer money until the beginning of the next month, as a way to reduce risk to the customers.

26. In fact, on various occasions, as KARLIS knew, AKYIL manipulated BTR's customer platform and account statements to create the false impression that AKYIL had stopped trading for the month after he had made the customers a 5% profit. In actuality, AKYIL continued to trade with customers' funds. These additional trades did not appear on the customer platform or on customer statements, and BTR did not credit the customers' accounts for the profits from this hidden trading. Rather, KARLS, AKYIL, and G.P. agreed to, and did, use this profit in an effort to reduce the "hole."

Short-Term Trading

27. KARLIS, AKYIL, and others told customers that AKYIL kept trades open for only a short period of time – generally not more than a few hours – in order to limit the risk of a shift in the currency markets, which could lead to significant customer losses.

28. In fact, as KARLIS knew, AKYIL kept trades made with customer money open for days and, in some instances, even weeks, exposing the customer money to significant risk if the

currency exchange rates changed. On various occasions, as KARLIS knew, AKYIL concealed these open trades by excluding them from the computerized customer platform and customer account statements.

30% Draw-Down Limit

29. Customers executed agreements with BTR that authorized BTR to trade on their behalf and set a “draw-down limit” – generally 30% – which was the percentage of the customer’s investment that could be put at risk or lost. KARLIS, AKYIL, and others told customers that if customers’ accounts lost 30% of their value, BTR closed all trades in the account and did no further trading without express permission from the customers. KARLIS, AKYIL, and others also told customers that the draw-down limit was built into BTR’s computerized trading platform so that trading stopped automatically if the 30% limit was reached.

30. In fact, as KARLIS and AKYIL knew, BTR’s trading software did not automatically shut down once the limits had been reached. Rather, AKYIL was responsible for monitoring the customer accounts and manually closing the trades once the 30% draw-down limit had been reached. On several occasions, as KARLIS knew, AKYIL concealed from BTR’s customers that he had ignored the draw-down limits established by customers and continued trading even after he had lost more than 30% of the customers’ funds.

The September 2008 Losses

31. In approximately August 2008, AKYIL placed a number of trades in which he purchased British Pounds, speculating that the value of the Pound would go up relative to the U.S. dollar. The value of the Pound, however, steadily declined. AKYIL kept many of his positions in the Pound open during almost the entire month of August and into September 2008 and placed additional trades in the Pound and other currencies.

32. During this time, AKYIL's trades suffered significant losses, to the point that, by September 3, 2008, BTR had lost far more than 30% of its customers' money. Nonetheless, AKYIL did not close the open trades but rather instructed G.P. to send customer money from BTR's bank accounts to the counterparties so that AKYIL could continue to trade.

33. By manipulating the customer platform and e-mail notifications, AKYIL concealed from BTR's customers the dramatic trading losses from AKYIL's trades during the first week of September 2008.

34. As late as Thursday, September 4, 2008, AKYIL continued to conceal these losses from customers and resisted G.P.'s efforts to convince him to close the trades. G.P. then contacted some of the counterparties and began closing the trades himself. AKYIL finally closed the remaining trades. At the end of the day on September 4, BTR had lost approximately 90% of its customers' money.

35. On Friday, September 5, 2008, G.P. sent an e-mail to BTR's customers, stating that "over the past few days, [BTR] experienced trading losses that were more than what the Company can tolerate" and advising that "all trading has been suspended" and that "Customer accounts are being reconciled now." This was the first time that customers were alerted to the extent of the losses.

36. Between July 31, 2008 and September 5, 2008, when BTR shut down its trading operations, it lost more than \$30 million in customer funds.

37. Following these dramatic losses, BTR's customer accounts were liquidated and customers received back approximately 10% of their investments.

KARLIS's FALSE TAX FILING

38. As of 2009, KARLIS owed more than \$130,000 in back taxes to the Internal Revenue Service for prior tax years. As a result, in the summer of 2009, KARLIS was in negotiations with the IRS about the payment of those tax liabilities. In June 2009, as part of these negotiations, KARLIS signed and filed a Form 433-A "Collection Information Statement for Wage Earners and Self-Employed Individuals" on which he was required to report all assets. As KARLIS knew, the IRS relied on the Form 433-A to determine how to proceed with collection efforts against him. Although KARLIS reported certain assets on the Form 433-A, including a house in Massachusetts and certain bank accounts, KARLIS omitted a second house that he owned.

KARLIS's FAILURE TO FILE 2008 TAX RETURN

39. In 2008, KARLIS received approximately \$1,300,000 in income from BTR, primarily in the form of wire transfers into his and his wife's personal bank accounts and payments for a house and a car. Nonetheless, KARLIS never filed a 2008 federal income tax return, even though he knew that he was required to do so.

COUNTS ONE-FIFTEEN

(Wire Fraud)

18 U.S.C. §§1343 and 2

40. The Grand Jury realleges and incorporates by reference the allegations in paragraphs 1-39 of this Indictment, and further charges that:

41. On or about the dates set forth below, at Boston, in the District of Massachusetts and elsewhere, defendants

(1) CRAIG A. KARLIS, and

(2) AHMET DEVRIM AKYIL

having knowingly devised a scheme to defraud and to obtain money and property by means of material false and fraudulent pretenses, representations and promises, transmitted and caused to be transmitted in interstate commerce, wire communications, including writings, signals, and sounds, for the purpose of executing the scheme to defraud, as set forth below:

Count	Date	Defendant(s)	Wire Transmission
1	9/21/07	KARLIS	\$462 BTR Sovereign Bank check card purchase at Macy's in Boston, processed through Sovereign Bank's computer servers in Pennsylvania
2	9/26/07	AKYIL	\$34,000 transfer from a BTR Sovereign Bank customer account to AKYIL's personal account at Sovereign Bank, processed through Sovereign Bank's computer servers in Pennsylvania
3	9/27/07	KARLIS	\$34,000 wire transfer from a BTR Sovereign Bank customer account to Burbank Auto Sales, processed through Sovereign Bank's computer servers in Pennsylvania
4	10/16/07	KARLIS	\$1,562 BTR Sovereign Bank check card purchase at Sports Authority in Milford, Massachusetts, processed through Sovereign Bank's computer servers in Pennsylvania

5	10/29/07	KARLIS AKYIL	\$8,000 wire from customer G.B.'s Wachovia Bank account in Florida to a BTR Sovereign Bank customer account in Massachusetts
6	11/9/07	KARLIS AKYIL	\$25,000 wire from customer R.T.'s Bank of America account in Florida to a BTR Sovereign Bank customer account in Massachusetts
7	11/21/07	KARLIS AKYIL	\$15,000 wire from customer S.D.'s Wachovia Bank account in Florida to a BTR Sovereign Bank customer account in Massachusetts
8	11/28/07	KARLIS AKYIL	\$40,000 wire from customer J.C.'s Fifth Third Bank account in Florida to a BTR Sovereign Bank customer account in Massachusetts
9	12/31/07	KARLIS	\$1,200 BTR Sovereign Bank check card purchase at Barmakian Jewelers in Framingham, Massachusetts, processed through Sovereign Bank's computer servers in Pennsylvania
10	2/6/08	AKYIL	\$189 BTR Sovereign Bank check card purchase at Macy's in Boston, processed through Sovereign Bank's computer servers in Pennsylvania
11	3/3/08	KARLIS	\$606,540 wire from a BTR Sovereign Bank customer account in Massachusetts to Wachovia Bank in Florida for the purchase of a house in Cape Coral, Florida
12	3/3/08	AKYIL	\$611,540 transfer from a BTR Sovereign Bank customer account to AKYIL's personal account at Sovereign Bank, processed through Sovereign Bank's computer servers in Pennsylvania
13	9/3/08	AKYIL	E-mailed customer account statement from BTR, in Massachusetts, to customer S.D, in Florida
14	9/3/08	AKYIL	E-mailed customer account statement from BTR, in Massachusetts, to customer V.D, in Florida
15	9/3/08	AKYIL	E-mailed customer account statement from BTR, in Massachusetts, to customer A.S., in North Carolina

All in violation of 18 U.S.C. §§1343 and 2.

COUNT SIXTEEN
(Subscribing False Tax Document)
26 U.S.C. § 7206(1)

42. The Grand Jury realleges and incorporates by reference the allegations in paragraphs 1-39 and further charges that:

43. On or about June 30, 2009, in the District of Massachusetts and elsewhere, defendant

(1) CRAIG A. KARLIS

did willfully make and subscribe a return, statement and other document that contained and was verified by a written declaration that it was made under penalties of perjury and that he did not believe to be true and correct as to every material matter, to wit, a Collection Information Statement for Wage Earners and Self-Employed Individuals Form 433-A that purported to identify all of KARLIS's assets, including real property and bank accounts owned by KARLIS and KARLIS's wife, whereas, as KARLIS knew, the Form omitted a house owned by KARLIS.

All in violation of 26 U.S.C. §7206(1).

COUNT SEVENTEEN
(Failure to File Tax Return)
26 U.S.C. § 7203

44. The Grand Jury realleges and incorporates by reference the allegations in paragraphs 1-39 and further charges that:

45. In or about October 2009, in the District of Massachusetts and elsewhere, and continuing thereafter, defendant

(1) CRAIG A. KARLIS

knew that he had received gross income during the calendar year 2008 in excess of \$17,900, and that by reason of such gross income, he was required by law, on or before April 15, 2009, or, upon approval by the Internal Revenue Service of a valid extension request, on or before October 15, 2009, to make an income tax return to the Internal Revenue Service, or other proper officer of the United States, stating specifically the items of his gross income and any deductions and credits to which he was entitled; and that knowing this, KARLIS did willfully fail to make any such income tax return.

All in violation of 26 U.S.C. §7203.

FORFEITURE ALLEGATIONS
(18 U.S.C. §981(a)(1)(C) and 28 U.S.C. §2461(c))

46. Upon conviction of one or more offenses alleged in Counts One through Fifteen of this Indictment, defendants,

(1) CRAIG A. KARLIS, and

(2) AHMET DEVRIM AKYIL

shall forfeit to the United States, jointly and severally, pursuant to 18 U.S.C. §981(a)(1)(C) and 28 U.S.C. §2461(c), any property, real or personal, that constitutes, or is derived from, proceeds traceable to the commission of the offenses. The property to be forfeited includes, but is not limited to, the following:

- a. one white 2005 Cadillac Escalade, bearing vehicle identification number 1GYEK63N85R112004 and MA Registration number 1EY750; and
- b. the real property located at 4108 SW 19 Place, Cape Coral, Florida, being the same premises conveyed to Craig A. Karlis on February 29, 2008 and recorded on March 5, 2008 under Clerks File No. 2008000058732 in Lee County, Florida, including all improvements thereon and appurtenances thereto.

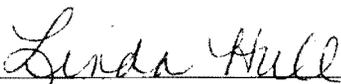
47. If any of the property described in paragraph 46, above, as a result of any act or omission of the defendants –

- a. cannot be located upon exercise of due diligence;
- b. has been transferred or sold to, or deposited with, a third party;
- c. has been placed beyond the jurisdiction of this Court;
- d. has been substantially diminished in value; or
- e. has been commingled with other property which cannot be divided without difficulty;

it is the intention of the United States, pursuant to 28 U.S.C. §2461(c)), incorporating 21 U.S.C. §853(p), to seek forfeiture of any other property of the defendants up to the value of the property described in subparagraphs (a) through (e) of this paragraph.

All pursuant to 18 U.S.C. §981(a)(1)(C) and 28 U.S.C. §2461(c).

A TRUE BILL



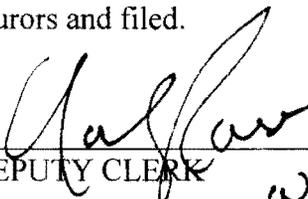
FOREPERSON OF THE GRAND JURY



ADAM J. BOOKBINDER
SARAH E. WALTERS
ASSISTANT U.S. ATTORNEYS

DISTRICT OF MASSACHUSETTS; October 6, 2010

Returned into the District Court by the Grand Jurors and filed.



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