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U.S. Attorney's Office

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Manhattan U.S. Attorney Announces Charges Against Three Defendants in Multi-Million-Dollar Stock Manipulation Scheme

Preet Bharara, the United States Attorney for the Southern District of New York, and Diego Rodriguez, Assistant Director-in-Charge of the New York Field Office of the Federal Bureau of Investigation (“FBI”), and Robert J. Sica, Special Agent in Charge of the U.S. Secret Service New York Field Office (“USSS”) announced today the unsealing of an indictment charging GERY SHALON, JOSHU.S.MUEL AARON, and ZIV ORENSTEIN with orchestrating a scheme to manipulate the price and volume of traded shares in numerous publicly traded stocks by means of deceptive and misleading e-mail campaigns, and manipulative, prearranged stock trading. SHALON and ORENSTEIN were arrested today in Israel by the Israel Police. The United States Attorney's Office will seek their extradition to stand trial in the United States. AARON remains at large.

Manhattan U.S. Attorney Preet Bharara said: “As alleged, the defendants manipulated trading in U.S. securities from overseas, using fake identities to funnel millions of dollars in unlawful proceeds through a web of international shell companies. Using false and misleading spam e-mails sent to millions of people, these defendants allegedly directed their pump-and-dump scheme from their computers halfway around the world.”

FBI Assistant Director-in-Charge Diego Rodriguez said: “Crimes, such as the ones alleged herein, are multinational and complex in nature. The defendants are alleged to have profited in the millions of dollars and defrauded innocent investors for their own gain. The FBI is committed to working with our partners, both foreign and domestic, to ensure the integrity of our markets and protect our communities from fraud and deception, regardless of the scheme, means, or medium.”

USSS Special Agent in Charge Robert J. Sica said: “This case highlights the Secret Service's investigative skills and our commitment to collaborate with our partners in detecting and dismantling highly sophisticated transnational criminal enterprises targeting the United States. These crimes can have a detrimental impact to our nation's critical financial infrastructure. The Secret Service, in conjunction with its many law enforcement partners across the United States and around the world, is committed to deploying cutting edge investigative practices and technology in order to bring these offenders to justice.”

In a separate action, the United States Securities and Exchange Commission (“SEC”) announced civil charges against SHALON, AARON and ORENSTEIN.

According to the allegations contained in the indictment unsealed today in Manhattan federal court:¹

Since 2011, SHALON, AARON, ORENSTEIN, and their co-conspirators have orchestrated multi-million dollar stock manipulation—or “pump and dump”—schemes to manipulate the price and trading volume of numerous publicly traded microcap stocks (“penny stocks”) in order to enable members of the conspiracy to sell their holdings in those stocks at artificially inflated prices. In furtherance of the conspiracy, SHALON and AARON partnered with “promoters” who identified the companies whose stock would be targeted for manipulation. In doing so, AARON acted as the scheme's “front-man,” using the alias “Mike Shields” (including false identification and a Social Security Number belonging to another person) to communicate with the promoters and others at SHALON's direction. In some instances, at the time SHALON and AARON partnered with the promoters, the targeted companies were already publicly traded, and in other instances, SHALON and AARON worked with the promoters to cause the companies to become publicly traded in furtherance of the scheme. In either case, upon partnering with the promoters, SHALON, AARON and the promoters agreed upon the compensation SHALON and AARON would receive for their role in the scheme, which typically amounted to either hundreds of thousands of dollars, or to shares in the targeted stock that SHALON and AARON typically sold for hundreds of thousands or millions of dollars in profits in the course of the scheme.

Also in furtherance of the conspiracy, the promoters—along with, at certain times, SHALON and AARON—acquired control over all or substantially all of the free-trading shares of the targeted stock, that is, shares that the owner could trade without restriction on a national stock exchange or in the over-the-counter market. At certain times, in furtherance of the scheme, when they acquired such free-trading shares, SHALON and AARON held the shares in brokerage accounts in the United States, which were opened in the names of shell companies (the “Brokerage Accounts”) and managed in part at SHALON's direction by ORENSTEIN under aliases that ORENSTEIN supported with false and fraudulent passports and other false personal identification information.

As a further part of the scheme to defraud, after members of the conspiracy acquired control of a substantial portion of the free-trading shares of the targeted stock, SHALON, AARON, and their co-conspirators artificially inflated the stock's price and trading volume through two fraudulent and deceptive means. First, certain members of the conspiracy typically executed pre-arranged manipulative trades to cause the stock's price to rise small amounts on successive days. Second, in connection with that trading, SHALON and AARON began disseminating materially misleading, unsolicited (“spam”) e-mails—e-mailing up to millions of recipients per day—that falsely touted the stock in order to trick others into buying it. As orchestrated by SHALON and AARON, these e-mails contained materially false and fraudulent statements including, for example, (i) that the stock's recent trading activity reflected legitimate demand for the stock (when in fact, and as AARON and SHALON well knew, the trading activity was caused in whole or in part by the manipulative trading of their co-conspirators) and (ii) that the e-mails were being distributed and financed by certain third parties when, in fact, and as AARON and SHALON well knew, the e-mails were being distributed and financed by SHALON, AARON, and their co-conspirators, who controlled all or nearly all of the free-trading shares of the stock.

After causing the stock's price and trading volume to increase artificially during the days or weeks of the e-mail promotional campaign, members of the conspiracy (including, when they owned shares, SHALON and AARON) began dumping, or selling, their shares in a coordinated fashion, often resulting in huge profits to members of the conspiracy. SHALON and AARON alone earned millions of dollars in illicit profits this way, selling shares of manipulated stocks from the Brokerage Accounts in coordination with their e-mail promotional campaigns and co-conspirators. The co-conspirators' massive coordinated sales typically placed downward pressure on the stock's price and caused its trading volume to plummet, exposing unsuspecting investors to significant losses. SHALON and AARON then laundered their criminal proceeds overseas, directing millions of dollars of their criminal profits to a shell company bank account in Cyprus for further distribution in part to another Cyprus-based shell company account owned and controlled by AARON, and to other overseas shell company accounts beneficially owned and controlled by SHALON and other members of the conspiracy.

For this alleged conduct, SHALON, AARON, and ORENSTEIN are charged with the following offenses, which carry the maximum prison terms listed below:

Count	Defendants	Charge	Maximum Prison Term
One	SHALON, AARON, and ORENSTEIN	Conspiracy to commit securities fraud	Five years
Two	SHALON, AARON, and ORENSTEIN	Conspiracy to commit wire fraud	20 years
Three	SHALON, AARON, and ORENSTEIN	Securities fraud	20 years
Four	SHALON and AARON	Securities fraud	20 years
Five	SHALON and AARON	Securities fraud	20 years
Six	SHALON and AARON	Securities fraud	20 years
Seven	SHALON, AARON, and ORENSTEIN	Securities fraud	10 years
Eight	SHALON, AARON, and ORENSTEIN	Wire fraud	20 years
Nine	SHALON, AARON, and ORENSTEIN	Conspiracy to commit identification document fraud	15 years
Ten	SHALON and AARON	Aggravated Identity Theft	Mandatory two years