

U.S. Probes Alleged Scam In Brokers Test

By Ann Hagedorn

Staff Reporter of The Wall Street Journal

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PAGE C1

English

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NEW YORK -- A federal grand jury in Brooklyn is investigating what could be a massive scam in which stockbrokers allegedly faked their way onto the National Association of Securities Dealers' list of registered brokers.

The scam allegedly involves would-be brokers arranging for other individuals to take a test, known as the "Series 7" exam. To be licensed as a broker by the NASD, one must pass the test, and those who buy and sell securities without a license are breaking the law.

The scope of the probe is unknown, but one individual familiar with the investigation said it will eventually touch every major brokerage firm on Wall Street.

So far, however, there is no indication that the probe has gone beyond a tiny band of brokers at two relatively small firms, Datek Securities Corp. of Brooklyn, and Brown, Knapp & Co. of New York.

Last month the U.S. attorney's office in Brooklyn filed a complaint that outlined the alleged scheme and named seven defendants, two of whom had allegedly taken the Series 7 exam for four brokers, Murray Huberfeld, Jacob Elbogen, Solomon Obstfeld and David Bodner. The seventh individual, Aaron Elbogen, allegedly served as a middleman, making the arrangements for someone to take the test for his brother, Jacob.

In 1987, Jacob Elbogen was one of a number of individuals who brought a securities class-action suit against a Cincinnati broker, P. David Herrlinger. Mr. Herrlinger then filed a third-party complaint against Dow Jones & Co., publisher of this newspaper. Mr. Elbogen later pulled out of the case against Mr. Herrlinger, who eventually dropped his claims against Dow Jones.

The NASD test complaint charges the defendants with conspiracy to commit securities fraud by filing false documents for obtaining membership in the NASD. Although they allegedly never took the test, Messrs. Huberfeld, Elbogen, Obstfeld and Bodner, the complaint states, "were licensed as registered representatives with the NASD and thereafter were employed by various securities brokerage firms, including Datek Securities and Brown & Knapp."

No other firms were named in the complaint, and a spokeswoman for the U.S. attorney's office in Brooklyn said she couldn't disclose whether any other brokers at other firms had been targets of the probe.

Calls to Datek Securities weren't returned, and no one could be reached at Brown Knapp. The defendants couldn't be reached for comment.

John J. Flood, the NASD's assistant general counsel, said, "NASD has cooperated fully with the Department of Justice, U.S. Postal Service and the U.S. attorney's office in connection with this and will continue to do so if requested to preserve the integrity of the examination process." He also said the NASD has been working with the New York Stock Exchange to develop a Series 7 exam that will "substantially reduce the exposure to many types of cheating."

All the defendants have been arrested and arraigned. An indictment is expected within the next six weeks, said an individual with knowledge of the probe.

The government's case in Brooklyn appears to depend heavily on handwriting analysis of the signatures on the test forms and the sign-in sheets at the NASD testing centers. A handwriting expert, the complaint states, indicated that Jacob Elbogen's signature on a sign-in roster for March 22, 1982, was written by another defendant, Joshua Wagshall, whose fingerprints were also found on the test forms.

Mr. Wagshall allegedly also took the test for Mr. Obstfeld on Aug. 22, 1983, and for Mr. Bodner on June 17, 1985. And on that same day, another defendant, Moishe Bodner, allegedly took the test for Mr. Huberfeld. The criminal complaint indicates that Mr. Wagshall has apparently cooperated with the government in its probe.

The NASD gives would-be brokers the opportunity to take the Series 7 exam every third Saturday each month at hundreds of test centers nationwide. In some cities, such as New York, the exam is also offered on the following Monday for those who can't take the exam on Saturday for religious reasons. The six-hour exam tests an individual's knowledge of the securities market as well as the laws and regulations that govern the market.

According to the NASD, nearly 50% of those who take the exam each year fail the first time. Most come back after failing the first time, following a 30-day waiting period. After the third failure, the applicant must wait six months to try again.

Last year, 46,223 individuals took the exam and 46.7% failed. As of January 1990, there were 6,148 broker-dealers in the U.S. and 438,701 registered brokers, according to the NASD.

Section B; Metropolitan Desk

Lawyer Is Investigated in Real Estate Fraud

By JOSEPH P. FRIED

605 words

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English

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Federal investigators are looking into accusations that a lawyer prominent in the Orthodox Jewish community in Brooklyn swindled millions of dollars from real estate investors, many if not most of whom were Orthodox Jews, law-enforcement officials said.

A lawyer for David Schick, the man under investigation, acknowledged yesterday that his client had defrauded people through some bogus investments and confirmed that Mr. Schick was being investigated by Federal authorities in Brooklyn and Manhattan.

But the lawyer, Victor J. Rocco, also said that other real estate investments for which Mr. Schick had taken money were legitimate, even though investors lost money in those projects, and that still other investments had been both legitimate and profitable.

The situation is multifaceted, Mr. Rocco said. He said he did not know the totals involved in the fraudulent investments. But he said that Mr. Schick, 36, a member of a family well known in Orthodox Jewish circles in New York City, was repentant, was "prepared to accept responsibility for what he did" and wanted to cooperate with the authorities.

An uncle of Mr. Schick, Marvin Schick, a consultant to foundations on philanthropic matters, said in an interview yesterday that his nephew had recently told him that "he had done some wrongful things" and appeared distraught.

The accusations against Mr. Schick, a father of 10 who lives in the Midwood section of Brooklyn, have been a topic of conversation among Orthodox Jews in that neighborhood and in Borough Park, both of which have large Orthodox populations, as well in other Orthodox neighborhoods in the New York City region.

Edward A. Rial, chief of the business fraud unit of the United States Attorney's office in Brooklyn, and Matthew E. Fishbein, chief assistant United States Attorney in Manhattan, declined yesterday to comment on the case.

But investigators familiar with the inquiry, who spoke on condition of anonymity, said they expected that criminal charges would be filed against Mr. Schick in the next few weeks. The investigators said it appeared that millions of dollars were involved in the fraudulent investments, but they said they could not be more specific and did not know how much of the total had been lost.

But one investigator said that reports in the Orthodox community that Mr. Schick had appropriated as much as \$200 million appeared to be excessive.

Marvin Schick said that although his nephew had lived comfortably with his large family in a remodeled single-family home, "He didn't enrich himself this way." In any case, he said, David Schick now "has no money, literally."

He also said that his nephew had "spent much of his time doing mitzvahs," good deeds, and that this was "a very large part of his life."

David Schick was with the Manhattan law firm of Frenkel & Hershkowitz in Manhattan until late last year, when he left and formed a partnership with another lawyer, said Irving P. Seidman, a lawyer representing Frenkel & Hershkowitz. Mr. Seidman said Frenkel & Hershkowitz was "conducting its own investigation into the allegations against its former partner, and has not as yet determined if the events relate to the period during which" he was with that firm.

Mr. Schick's father, Arthur, heads a Brooklyn kosher catering company well known in New York's Orthodox Jewish community. It was also one of the three companies that catered the inaugural reception for Mayor David M. Dinkins in 1990.

"It's a very difficult period for the family," Marvin Schick said yesterday.

U.S. Says Brooklyn Lawyer Stole Millions Using Property Schemes

By JOSEPH P. FRIED

474 words

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The New York Times

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A lawyer with a reputation for charitable deeds was charged yesterday with swindling victims out of nearly \$14 million using bogus real estate schemes, and a Federal court complaint said that he had told another lawyer that his swindles had totaled more than \$50 million.

The lawyer who was charged, David Schick, is a member of a prominent Orthodox Jewish family in Brooklyn, and prosecutors said most of his victims were Orthodox Jews.

The victim in one scheme charged yesterday was identified as a British organization, Vindola Ltd., that finances charitable activities in Israel. Prosecutors said it was defrauded of \$7 million that Mr. Schick misappropriated from an escrow account set up for what he had promised would be a safe investment paying a guaranteed high interest rate.

Mr. Schick, 36, a Brooklyn resident who was said by his lawyer in a recent interview to have been involved in some bogus investments, surrendered to the Federal Bureau of Investigation yesterday and was arraigned in the Federal District Courts in Manhattan and Brooklyn on fraud charges.

Federal prosecutors in both districts have been investigating what appears to be an extensive web of activities that one official said may have lost investors \$100 million.

But the official, insisting on anonymity, said he could not estimate how much of the total loss resulted from criminal fraud. Prosecutors said the charges reflect only the beginning of an investigation expected to lead to counts involving far more than the \$14 million cited yesterday.

The authorities said they suspect that much of what was taken from later investors went to pay back earlier investors in a pyramid scheme. But they also said that some funds may have been used to pay back investors in legitimate deals that suffered losses.

Mr. Schick, a bespectacled, heavy-set man, was released at each arraignment on a \$1 million bond secured by his home in the Midwood section of Brooklyn, where he lives with his wife and 10 children, and by the Brooklyn home of his father, Arthur Schick, who heads a well-known Brooklyn kosher catering concern.

Mr. Schick was not required to enter a plea at the arraignments, but in the interview earlier this month, his lawyer, Victor J. Rocco, said that Mr. Schick was "prepared to accept responsibility" for the crimes.

"Today, I'm not going to have any comment," Mr. Rocco said as he and his client's father waited yesterday for Mr. Schick to be arraigned in the Brooklyn Federal Court, where the case involving Vindola Ltd. was outlined in prosecution papers.

Papers submitted in Federal Court in Manhattan charge that an unidentified investor was defrauded of nearly \$7 million in a similar scheme.

The Man With Two Faces

Section 1; Metropolitan Desk

In an Orthodox Jewish World of Honor, a Fraud Case Shocks

By MATTHEW PURDY

1761 words

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English

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In Flatbush, where the Orthodox Jewish community survives through tradition and trust, the name Schick symbolized both. Schick's Bakery, and later the Schick family catering business, laid out delectable spreads for the Sabbath, holidays and all of life's milestones. The family was generous to the needy, produced yeshiva teachers and even established a fund for poor brides, named for a girl who died young.

Then came David Schick. A lawyer and father of 10 at age 36, his reputation as a doer of good deeds brought people to his home on Avenue I late at night seeking counsel on immigration law or trouble with a child. And Mr. Schick took the family's name far beyond Flatbush.

He was recently the honorary chairman of the annual meeting of the nation's largest Orthodox organization. He helped arrange for President Clinton to meet in March with donors to a large rabbinical college he supports. When Mr. Schick had early success as a real estate investor, word spread so fast through the Orthodox Jewish world that wealthy Jews around the globe were soon entrusting him with millions. To reassure the religious, his deals included a letter from a rabbinical court waiving the prohibition in Jewish law on Jews earning interest from each other.

"They were knocking his door down," said Robert Goldman, a lawyer representing investors in New York, California and Belgium.

Then on April 6, an investor called Mr. Schick to ask about his \$1.7 million that was supposed to be parked securely in an escrow account. According to a complaint filed in Federal Court in Manhattan, Mr. Schick responded simply, "I took it."

Mr. Schick phoned another associate and announced: "I'm sorry. I'm a wicked person."

Last month, Federal prosecutors in Manhattan and Brooklyn charged Mr. Schick with fraud and opened a broad investigation into allegations that Mr. Schick defrauded investors in his various real estate schemes of up to \$200 million. Mr. Schick was not required to enter a plea at his arraignment.

In just a few months, his wizardry has been turned into alleged thievery and his reputation among Orthodox Jews shattered by the recognition that he may have worked a double scam on them, first capturing their respect and then taking their money.

The undoing of Mr. Schick came, in the words of his loyal mother-in-law, Susan Katz, "out of left field, like a bombshell."

If the charges are true, Mr. Schick will join a long trail of once-upstanding citizens who have been revealed as swindlers to the shock of their friends and family. But Mr. Schick's case is notable because of the massive amount of missing money and the bitter contrast between Mr. Schick's alleged misdeeds

and the strict code of ethics and religious practice that many Orthodox Jews say distinguishes them from the world around them. "There is great pain in the community," said a man who knew Mr. Schick through his charitable work. "I think people feel betrayed. I talked to a guy yesterday who was one of 1,000 people who thought David was his best friend. The guy felt betrayed."

The Schick scandal is big news in the Orthodox communities of New York City and Rockland County and even in Europe and London. The mystery of where the money went has not yet been solved, nor has the larger mystery of what made Mr. Schick veer so far off the course he seemed to be setting for himself.

"In the Orthodox community, people become known through good works," said a man from Monsey in Rockland County who invested and lost \$170,000 with Mr. Schick. "If people are involved in charitable works, it means they want to be a do-gooder, to be a mensch. Occasionally, fortunately only occasionally, you have people who do things only for personal aggrandizement, for an ego trip."

Investigators and lawyers for investors say Mr. Schick was engaged in a smorgasbord of schemes, from promises of risk-free investments yielding 15 to 20 percent profits to selling multiple mortgages on property he did not even own to simply stealing money entrusted to him. Orthodox Jews are not the only ones who say they have been victimized. In December, Swiss Bank loaned Mr. Schick \$3 million for four months, according to papers the bank filed in Supreme Court in Manhattan, but by May he had neither paid it back nor explained where it was.

Among those who say they are victims of Mr. Schick are savvy business people, including the original founders of the Snapple drink company.

The scheme that appeared most attractive was using investor money in the purchase of packages of mortgages. Court records say that Mr. Schick told investors that their money would be secure in escrow accounts and would not be at risk because he would arrange to resell the mortgages at a profit simultaneously with the purchase. But in civil suits, investors say the money disappeared. Neither Mr. Schick nor his lawyer, Victor Rocco, would comment on the case.

Federal investigators are trying to determine if banks' employees were negligent or helped Mr. Schick remove money from accounts without the permission of investors, according to a person familiar with the investigation. A spokesman for Fleet Bank, the main institution Mr. Schick used to hold investors' money, said it was conducting an internal investigation related to Mr. Schick.

Former associates, speaking on the condition of anonymity, say the allegations do not square with Mr. Schick's personality and surmise he may have become desperate for money to cover investors' losses in previous deals. Clearly, some investors did win. William J. Davis, a lawyer representing the Wertenteil family, said the family's late father, Louis, made various loans and investments with Mr. Schick and always made money. But \$424,000 lent to Mr. Schick by Wertenteil family members and others to be repaid in March, with interest, has not been repaid by Mr. Schick, according to a lawsuit filed by the family in Supreme Court in Manhattan.

"Sometimes a snowball gets rolling and keeps going and going and it can't be stopped," said Mrs. Katz, who added that she knows nothing about her son-in-law's business.

Although Mr. Schick evolved into "a deal junkie," as one former associate said, he hardly came off as slick. His shirt tail was often in evidence, he had none of the trappings that telegraph success, and he was more harried than high-pressure. His frenzy was reflected in his personal communications network: Two beepers, a cellular phone, a car phone, a paging service and three telephone lines at home. "He was a workaholic," Mrs. Katz said. "He just couldn't stop."

Rather than enter the family's catering business (the family sold the bakery years before, although it

still bears its name), he became a lawyer. He graduated from Brooklyn Law School and transformed a real estate law practice into an investment business that he said owned or managed property and mortgages valued at \$277 million, according to a confidential report he wrote last summer on his company, the Venture Mortgage Corporation. He dealt largely with other Orthodox Jews in a business atmosphere not unlike the diamond business, where deals are struck on trust and a handshake.

He was equally energetic in charitable work. He gave money and free legal advice to established charities, and also helped the needy informally, including letting a family of Russian immigrants live rent free in an apartment in his house for six years. "It was not a tangential part of his life," said his uncle, Marvin Schick, who was an adviser to Mayor John Lindsay. Now, investigators and former associates suspect his largesse was fueled by other people's money.

Mr. Schick made inroads in politics. He contributed \$25,000 to the Democratic National Committee in February. Through business associates, Mr. Schick met Susan Thomases, a New York lawyer and friend of the President and Mrs. Clinton. Ms. Thomases, who did not return calls seeking comment, attended the bris for Mr. Schick's newborn son, said two people who attended. And Ginny Terzano, a White House spokeswoman, said Ms. Thomases suggested that the President meet with about 40 donors and educators of the Lakewood Yeshiva, a meeting Mr. Schick helped arrange at the St. Regis Hotel in March.

Even as Mr. Schick became more prominent, there are indications his scheming and deceptions were becoming more widespread. A lawsuit filed last month in Federal Court in Manhattan alleges that in 1993 Mr. Schick acted as the attorney on the sale of five mortgages worth more than \$6 million to the National Heritage Life Insurance Company but that he never delivered the mortgages to the insurance company. The insurance company, being liquidated, is the subject of a criminal investigation into allegations it was defrauded of as much as \$100 million.

However adept he was at creating illusions, when Mr. Schick tumbled, he did not try to make it look like a planned stunt. His lawyer, Mr. Rocco, said Mr. Schick was cooperating with authorities in identifying people who lost money.

Mr. Rocco wrote to a leader in the Orthodox community, Abraham Fruchthandler, proposing that investors resolve their claims under the guidance of a rabbinical court rather than through a civil court. But the losses and the number of investors became too large. Two weeks ago, a group of investors petitioned to force Mr. Schick into bankruptcy, freezing his assets.

Some among the Orthodox call Mr. Schick a thief. But others have displayed a surprising compassion -- and some residual faith in Mr. Schick.

In mid-April, a distraught Mr. Schick appeared briefly at a meeting of about 25 investors and Orthodox community leaders who had come together to discuss how to deal with the missing money, including the possibility of creating a fund to cover some of the losses. The emotions at the meeting ranged from anger to embarrassment, but a few people offered to open their checkbooks again. "People said, 'I lost a lot of money,' said Mr. Schick's uncle Marvin, 'but he's a good person and I'd like to help.' "

Group Files Lawsuit Saying Fleet Allowed Escrow to Be Looted

323 words

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J

B4

English

(Copyright (c) 1996, Dow Jones & Company, Inc.)

NEW YORK -- Fleet Bank, a unit of Fleet Financial Group Inc., was charged in a lawsuit with failing to safeguard escrow accounts and allowing attorney David Schick to loot them.

The suit, filed in federal court in Manhattan, follows the disclosure of a continuing federal investigation of Mr. Schick, a prominent philanthropist in the Orthodox Jewish community. In May, Mr. Schick was charged by federal prosecutors in New York with stealing \$14 million from a British charity and an investor. Since then others have said they had given Mr. Schick sums of money that he hasn't repaid.

The suit also names Republic National Bank of New York and Sterling Bank & Trust Co. of New York, which also held escrow accounts. Officials of those banks couldn't be reached for comment.

In the suit filed against the banks, nine plaintiffs said they had lost more than \$10 million. According to the suit "more than 50 victims invested upwards of \$100 million in the fraudulent scheme."

According to the suit, the plot involved investors establishing escrow accounts at Fleet to be used in purchasing distressed mortgages. Contrary to the terms of the escrow agreement, Mr. Schick was allowed by the bank to control the money in the escrow accounts, the suit says. The suit also names Leonard Patnoi, a Fleet vice president and branch manager. "Schick emptied the account with the assistance of Patnoi and others at Fleet," the suit says.

A spokesman for Fleet said it is investigating all Mr. Schick's accounts and is cooperating with federal investigators. He also said: "Mr. Patnoi was terminated by Fleet in February 1996 for violation of company policies and procedures."

Mr. Patnoi couldn't be reached for comment. Victor J. Rocco, an attorney for Mr. Schick, said he has entered not guilty pleas to the criminal complaints against his client, but declined further comment.

Section B; Metropolitan Desk

Brooklyn Lawyer Pleads Guilty in Fraud Case

By JOSEPH P. FRIED

412 words

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In a case that has roiled Orthodox Jews from New York to Europe, a lawyer who was prominent in Brooklyn's Orthodox community pleaded guilty yesterday to swindling scores of investors out of more than \$80 million through bogus mortgage and real estate schemes.

Many of the people who invested with the lawyer, David Schick, were also Orthodox Jews in the United States and abroad -- individuals or investor groups and at least one charitable organization -- who relied on Mr. Schick's reputation for investment savvy and good works, Federal investigators said.

Mr. Schick, 37, pleaded guilty to fraud charges in two Federal courthouses yesterday -- first in White Plains and later in Brooklyn -- answering charges that had been brought against him as a result of a mushrooming, five-year pyramid scheme.

The scheme, one of the largest in recent years, was exposed in April 1996, shocking Mr. Schick's relatives and friends and leaving a wide swath of financial wreckage among the duped investors.

But when the pleas were entered yesterday, one question remained: How much of the more than \$80 million went into Mr. Schick's own pocket? The charge he pleaded to says that he "typically used the investors' money either to replace funds that he had improperly depleted from his attorney escrow accounts or to repay investors from earlier transactions."

Eric Bernstein, an assistant United States attorney in Brooklyn, said after the plea proceeding there before Judge Allyne R. Ross: "We do not know how much his net personal gain from this was."

Mr. Bernstein's office said several million dollars of assets have been seized from Mr. Schick or companies he used in his fraudulent schemes.

Mr. Schick's lawyer, Victor J. Rocco, said many of the defrauded investors had brought civil litigation that would help to determine how much, if anything, Mr. Schick had personally gained.

According to one of the fraud charges he pleaded guilty to, Mr. Schick recruited investors by telling them that he would use their money to bid on or invest in pools of real estate mortgages being sold by failed savings and loan institutions. The money, he promised, would be returned to them at a specific time with interest at more than the prevailing rate, according to investigators. In fact, the charge said, many of the mortgage pools did not exist.

TAPES REVEAL SCORES OF EVIDENCE

By MURRAY WEISS Criminal Justice Editor

947 words

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New York Post

NYPO

News

3

English

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On June 14, 1996, FBI agents slipped into a corner suite on the 38th floor of 3 Park Av. and planted two listening devices in the law offices of Michael Blutrigh, then an owner of Scores nightclub,

The agents - posing as cleaners - also installed a tiny surveillance camera above Blutrigh's desk that would provide a view of the back of his head when he met with reputed organized crime figures and mob associates.

Six months later, after Blutrigh was indicted in a \$100 million insurance fraud scam in Florida, the FBI played the tapes for him and he quickly turned informant. For the next year, Blutrigh and Scores co-owner Lyle Pfeffer wore hidden microphones when they met with mobsters.

The following are excerpts from the secret recordings made in Blutrigh's office and obtained exclusively by The Post:

"Do you know how I got Shalom Weiss as a client?" Blutrigh is heard asking, referring to a former part-owner of Studio 54 who was under indictment with Blutrigh in the Florida scam.

"I got up in front of a judge in federal court and I, I wove this whole story for the judge in oral arguments. And Shalom Weiss (who was sitting there) happened to know that I was lying through my teeth."

"And he (comes over to me and) goes, 'You know, you have to be my lawyer, because I sat in that courtroom, and I knew you were lying through your teeth and I believed you.'"

"And he hired me," Blutrigh said.

"I trained under David Schick and I am proud of it," Blutrigh notes, referring to a leading figure in the Orthodox Jewish community who had recently pleaded guilty to stealing \$80 million from friends in a Ponzi scheme.

"David Schick was a wacko devil," Weiss replies. "He was a son of a bitch. He was just like Hitler . . . The only difference (is) Hitler came out with the gun and was shooting..."

Pfeffer, discussing a check-kiting scheme with Michael Sergio, the mob's pointman at Scores.

"I'll give you a check from a different account and I'll stop payment on it. Then I'll give you a check ^dated_ tomorrow," Pfeffer explains.

"You knows (sic) all the fucking moves," Sergio says.

"It's just a stop payment," Pfeffer continues. "Give me the two \$15,000 checks. The one you're going to stop and the one you're going to put in the day it hits. And give me the \$10,000 check dated tomorrow and I'll walk to the bank."

Three days after two Scores employees were murdered during an after-hours party, Blutrigh feared that Sergio and mob strongarm William Marshall, who was involved in the brawl, would try to find the

killers and murder them.

"It's never going to trial," Blutrigh said. "The people who are interested in protecting Willie (Marshall) know who they are. So (it's) who gets there first."

Blutrigh said he preferred, for the club's sake, that the cops find the killers first.

"We don't want the next story being revenge slaying for past killing. I'd rather it be, you know, maniac Albanian arrested."

Two Albanian brothers were eventually caught and charged with the senseless double slaying.

On July 29, 1996, Blutrigh had his office swept for hidden surveillance equipment and a microphone was found.

"It's not federal?" Blutrigh speculates. "Crappy equipment. Sloppy stuff."

"Sloppy?" Weiss says. "I saw the way they ran it. They knew what they were doing."

"Not state of the art," Blutrigh insists.

"Internal revenue?" Weiss asks.

"I think it's the state police...."

"Well, that's FBI," Weiss concludes.

"No, I think it's a state group," Blutrigh argues. "I think it's a renegade state group. That's my opinion."

After the murders, Blutrigh feared the media would link his club to mob. But he was soon gloating about how he conned the Daily News into writing a puff piece that was buried in the paper.

"It didn't even turn out so bad," Blutrigh scoffed. "They bought us. They bought our story...."

Blutrigh, Pfeffer and Sergio are trying to concoct a story to give to investigators looking into Scores' money trail.

"What'd you say about the coatroom?" Sergio asks.

Blutrigh replies that he said it "was a concession, that the club isn't involved in that nor is it involved in the parking."

"The smart thing to do," advises Pfeffer, (is to say) the guy (Sergio's son, Steven) is head of security. What's wrong with that?

"(He) used to be a cop, okay. He owns, he runs the coatroom, okay. It's his concession. That's part of his deal and he runs security, gets a check for whatever it is, that's it. I mean. They already know this. You know, he was a cop in the 19th (precinct) wasn't he?"

The senior Sergio disagrees. "He was, ah, Steve, Steven had to retire (in 1986) because he had a big problem and he was brandishing his gun and everything."

Blutrigh shrugs that off. "What does that have to do with running security," he asks. "Why would we know that."

"The guy was a cop." says Pfeffer. "I've been there (at Scores) for four years, he was there when I got there. His deal is that he takes care of, runs, security. He spends a lot of hours there and umn, ah, he owns, the coatroom concession. That was part of his deal from running security. Certain salary plus he runs the coatroom."

Let's Make a Deal: Who are the real winners when ailing U.S. companies merge with Israeli tech start-ups?

By Bill Alpert and Jacqueline Doherty

3371 words

26 June 2000

Barron's

B

23

English

(Copyright (c) 2000, Dow Jones & Company, Inc.)

How does a tiny company on the verge of being delisted from Nasdaq suddenly boast a market capitalization of almost \$1 billion? A group of U.S. investors and Israeli companies have discovered a cookie-cutter formula for such financial success, and they've used it three times. Involved in each deal are David Bodner and Murray Huberfeld, investors with checkered pasts. Also figuring in each transaction, directly or indirectly, are David Rubner, the former head of ECI Telecom, one of Israel's largest telecom companies, and Rabbi Irwin Katsof, executive vice president of the Jerusalem Fund of Aish HaTorah, a prominent Jewish charity.

Here's how it works: A struggling publicly traded U.S. company with few shares outstanding issues millions of new shares to acquire a foreign company with little operating history and no reported profits. The U.S. company's shares rise as press releases promote the acquired company's technological prowess. If the technology companies succeed, all will make money. But even if the shares subsequently fall to \$2 or \$3, company insiders could reap millions because of the huge blocks of cheap shares they own.

Broad Capital, Bodner and Huberfeld's New York City-based investment firm, appears to have been instrumental in these deals, commonly called "reverse mergers" or "reverse acquisitions." (Neither Bodner nor Huberfeld returned our calls for comment, nor were they in when we visited their plush West 57th Street offices last week.) True or not, one thing is certain: Their wives, Naomi Bodner and Laura Huberfeld, own large blocks of stock in the one deal that has progressed far enough to require disclosure of shareholders. Indeed, their holdings of Multimedia KID are worth \$7 million each, despite the recent collapse in the value of its shares, to 2 1/16 from a high of 7 7/8 in February.

The three U.S. companies involved in these reverse mergers with Israeli tech firms are Western Power & Equipment, a distributor of heavy equipment, Sensor, known as a maker of measuring devices, and Jenkon International, which once made software for marketing and direct-sales companies. Last year, the shares in all three companies traded as low as 1 1/2. In April, Western Power & Equipment had a \$14.9 million market cap. In October 1999, Sensor was valued at \$18 million, and in August 1999, Jenkon was worth \$9.8 million.

Each has now completed, or is completing, a reverse acquisition. In April, for example, Western Power struck a deal with e-Mobile, which hopes to produce handheld devices to access the Internet. Western's shares rose to a high of \$10 on May 1, ballooning its market cap to \$553 million. Recent price: 6 11/16.

In October, Sensor struck a deal to merge with Net2Wireless, a company that plans to compress data so that cellular operators can offer high-speed data transmission and access to the Internet on existing phones and other communications devices. Sensor shares rose as high as 89 7/8 in March, giving it a \$3.9 billion market cap at the time. Recent price: 22 1/8.

In December, Jenkon completed its reverse acquisition with Multimedia KID, which develops interactive learning software for children and adults, and its shares rose to 4 9/16. They continued to

climb to a high of 7 7/8 in February, for a \$269 million market cap. Recent price: 2 1/16.

For years, private companies have done reverse acquisitions with public companies, to gain access to the public market. But the method sometimes raises warning flags because it allows the private companies to circumvent the scrutiny linked to an initial public offering.

But Nechemia Davidson, chief executive of Net2Wireless and the founder and chairman of e-Mobile, insists that this isn't the case with any transaction he's involved with. He says the reverse merger will allow the participants to access the public market quickly. "We have a very strong window right now because we have a very strong technology," he says. Being public, he adds, will allow his company to offer employees stock options and thus attract the best people.

Perhaps. But the bona fides of financiers Huberfeld, 39, and Bodner, 43, don't exactly inspire confidence. Two years ago, the Securities and Exchange Commission alleged that the pair had covertly received over 513,000 shares of restricted stock as collateral for a loan to a director of a company called Incomnet. The two immediately sold the shares in the now-bankrupt long-distance reseller for a profit of about \$3.7 million, in violation of securities laws, according to the SEC complaint.

Broad Capital also was cited for failing to disclose, as required by law, that it held over 5% of Incomnet's outstanding securities. Broad, Huberfeld and Bodner settled the case without admitting or denying the SEC's allegations and were ordered to disgorge their profits, plus interest, which together totaled \$4,649,125. Civil penalties also were imposed: Broad was ordered to pay \$50,000; Huberfeld and Bodner, \$15,000 each.

As a result, the pair were automatically "statutorily disqualified" from working for a broker licensed by the National Association of Securities Dealers.

Huberfeld and Broad Capital had another brush with the law in 1996, when they were targets of an SEC administrative complaint related to Wye Resources, a heavily promoted Canadian firm that claimed interests in various gold- and diamond-mining properties. "Broad Capital was aware of, and participated in, Wye's promotional efforts in the United States," the SEC alleged. The firm was also charged with buying unregistered shares of Wye at a discount and mischaracterizing the purchase as a loan. Without admitting or denying the commission's findings, Broad Capital and Huberfeld consented to the issuance of an order finding that they violated Section 5 of the Securities Act and they agreed to disgorge \$426,790, representing profits made as a result of the transactions in Wye stock plus interest.

And in 1992, Bodner and Huberfeld pled guilty in Federal court in Brooklyn, New York, to possession of false identification with the intent to defraud. The duo got snagged having imposters take the Series 7 securities brokers' examination in their stead. Each was sentenced to a minimum of one year's probation and fined \$50,000.

That doesn't seem to have slowed them, however. Consider the Jenkon International deal, which the Jerusalem Fund's Katsof recalls was "made available" to him by Huberfeld and Bodner. A little over a year ago, Jenkon shares were trading at 1 1/2. Then, on August 26, the reverse acquisition with Multimedia KID was announced. A Jenkon press release issued at the time noted that Multimedia KID was "awarded the prestigious Computer Software Award from the Office of the Prime Minister of Israel for the category of Special Innovation and Invention in Education."

As part of the deal, Jenkon issued 840,000 common shares to Multimedia KID shareholders, along with preferred stock that converts into an additional 24 million Jenkon shares. If the preferred stock were converted, Multimedia KID shareholders would own 83% of Jenkon. The deal later included a \$4.5 million private placement of notes that convert into 4.5 million Jenkon shares.

According to SEC filings, former ECI Telecom chief David Rubner consented to become non-

executive chairman of the newly combined company at the conclusion of the deal. Rubner, who stepped down from his post at ECI in February, had been with that Nasdaq-traded company since 1970 and was named chief executive in 1991. During his tenure as CEO, he is credited with expanding ECI's revenues from \$74 million to \$1.2 billion.

Rubner also serves as chairman of Net2Wireless and, if the reverse acquisition with Sensor is completed, he's slated to chair that combined entity, as well. Rubner says he was introduced to Huberfeld and Bodner through a friend, whose name he declines to reveal. He says he was unaware of the duo's history with the SEC. "As far as shareholders are concerned, we cannot check their history," he told Barron's.

Jenkon completed the reverse acquisition and the \$4.5 million private placement in December, and the Jenkon software business was sold to executives in the predecessor firm. Shares of Multimedia KID hit a high of 7 7/8 February 14.

Press releases about the deal fail to reveal much about the business or its finances. But according to SEC filings, for the six months ending June 30, 1999, about 44% of Multimedia KID's \$747,743 in revenues came from Romania, 33.6% from the U.S. and 19.8% from Israel; and 97.7% of the company's sales during that period came from just three unidentified customers. A more recent SEC filing shows that the company had a loss before discontinued operations of \$5.75 million and "generated only limited revenues from the sale of products, services and marketing rights" in the nine months ended March 31, 2000.

Earlier this month, Multimedia KID filed with the SEC to register 13,283,239 shares for sale. The shares result from the conversion of the preferred stock and the private placement. The registration, which isn't yet effective, makes for interesting reading. Listed as the largest shareholder is Zehava Rubner, David's wife, who owns 6,818,606 shares, a 19.9% stake, valued at \$14.1 million by today's market. Of her total holdings, 2,650,000 shares will be registered.

Also on the shareholder list are Naomi Bodner and Laura Huberfeld, who each own 3,409,302 shares, with a combined value of \$14.1 million. Each will register 1,325,000 shares.

Another name on the shareholder list is Robert DePalo, who owns 829,848 shares, all of which will be registered. DePalo is chairman of Equilink, a New York City investment firm, which was an adviser on the Multimedia KID deal. Says he: "By all predictions, the company should be profitable by the fourth quarter of this year, based on information given to me by the CFO."

The highest profile name on the shareholder list, however, belongs to Irwin Katsof, 45, who is shown as owning 200,000 shares, half of which will be registered for sale. Rabbi Katsof says some of those shares are owned by the Jerusalem Fund, which he heads, and says the charity is also invested in the Net2Wireless and e-Mobile deals.

Katsof prominently displays photos of himself with the likes of comedian Jerry Seinfeld, former British Prime Minister Margaret Thatcher, boxer Muhammed Ali and talk-show host Larry King in his midtown Manhattan office, across the street from the Broad Capital offices. Indeed, Katsof is the co-author, with King, of the popular book *Powerful Prayers*, which details the prayers of the rich and powerful.

Katsof says that Bodner and Huberfeld "are among the top philanthropists in the Jewish world." He adds: "David and Murray are known as upstanding individuals. They're friends. I trust their judgment."

The second deal, between Sensor and Net2Wireless, was announced on October 7, 1999. Sensor, formerly known as Larson-Davis, had been involved in the design, development, manufacturing and marketing of analytical scientific instruments. Six months earlier, Sensor had executed a 1-for-5 reverse

split and its board of directors resigned. Taking over as chief executive was Howard Landa, a partner at Sensor's outside law firm. Sensor then began selling off its various operations and looking for other acquisitions or investments. During the September 1999 quarter it had no sales from continuing operations, but held cash and cash equivalents of \$3.17 million.

Then came the announcement that Sensor would buy all the outstanding shares of ITES, now known as Net2Wireless. As part of the deal, Sensor would issue 17 million shares (adjusted for a subsequent split) to ITES stockholders. Another million shares would be given to unnamed parties who helped structure the deal.

"Net2Wireless was introduced to us by Broad Capital," says Sensor's Landa. Broad, he says, had invested in Sensor's predecessor and had approached him with a number of Israeli reverse-acquisition candidates. Landa says he liked the technology offered by Net2Wireless and met with Net2Wireless CEO Nechemia Davidson and Broad Capital in New York City. "My first attraction to the company was [David] Rubner because of his experience with ECI Telecom," says Landa.

Upon closing, Net2Wireless' officers, including Davidson, will take control of Sensor. Davidson, who told Barron's he worked for Israel's Ministry of Defense from 1987 into the mid-1990s and was involved with communications, data compression and encryption, says. "I searched for capital, and I met David Rubner, who was head of ECI." He adds that Rubner knew the U.S. investors and introduced him to Sensor. Davidson insists he knows nothing about Huberfeld's and Bodner's past run-ins with the SEC. "They're not active shareholders," he says. "It's David Rubner who's important."

Net2Wireless is developing a technology to compress data and transmit it wirelessly. Its hope is that cellular phone companies will buy its equipment to transmit video and the Internet over today's existing second generation, or 2G, devices. Most analysts don't expect wireless systems to be able to offer such services until 3G equipment is deployed, sometime in the next two to three years.

Sensor's shares started moving north after it announced that ITES had entered into a development agreement with Partner Communications, the Israeli affiliate of Orange, the British wireless operator. Net2Wireless will test, at its own expense, its streaming multimedia platform on Partner's system. In return, Partner received an option to purchase 7% of the company's outstanding stock at an exercise price of \$5.5 million. At today's price, those shares would be worth about \$67 million.

"It is in the first stages of testing, but we have not been disappointed," says Dan Eldar, vice president of carrier and international relations at Partner. One Partner unit is currently helping 12 startup companies to develop technology. And on Thursday PelePhone Communications, an Israeli cellular carrier, said it had installed Net2Wireless' technology and would begin pilot testing.

In late March, Net2Wireless completed a \$29 million private placement of preferred stock, which is convertible into 1,041,140 Sensor's shares. At that point, Sensor decided to exercise its option to acquire Net2Wireless and slightly increased the shares involved. Sensor will issue 18,295,060 shares and options for 14,766,649 shares in addition to the split-adjusted one million shares used to pay an introduction fee. When all is said and done, the combined company will have just over 43 million shares outstanding on a diluted basis. Net2Wireless investors will own 65% of the new company. Those investors, along with Partner, have options to boost their ownership to 77%.

Shareholders were slated to consider the merger on June 16, but the company hasn't released any news to that effect. The combined entity will be dubbed Net2Wireless, and Davidson will take over.

Net2Wireless lost \$493,178 between April and December 31, 1999, according to its most recent SEC filing. Yet at Sensor's current share price, the merged entity would boast a market value of \$953 million. Is it worth it? "It's worth much more than that," effuses Davidson. "Content is the future." David Rubner sounds equally confident. "Net2Wireless is a company that's worth a lot of money," he

explains. "It will revolutionize the cellular industry."

The most recently announced deal we found with a Bodner/Huberfeld connection involves Western Power & Equipment, a struggling heavy-equipment distributor. Results for the quarter ended April 30 show revenues of \$35.3 million, down 13% and a loss of \$947,000, or 29 cents per share, compared with the prior year's loss of two cents.

At the company's annual meeting in February, two of Western's incumbent directors resigned and two new directors were elected. Two months later, on April 18, Western announced plans to merge with e-Mobile, a startup developing a small, expensive wireless device, like a Palm organizer, that enables users to retrieve and display voice and data. On that day, Western's three million shares closed at 4 1/2.

Western Chief Executive Dean McLain explains that the company didn't have the money to expand its existing business, so it started looking for ways to merge, do a buyout or sell the company's shell. He adds that Robert M. Rubin, a Western director and the company's largest shareholder, knew the folks at Equilink, which was trying to bring e-Mobile public; Broad Capital, McLain says, is involved in raising \$7-\$8 million in a private placement, which is part of the deal.

McLain says he's never met with anyone from e-Mobile and Rubin has met only with Nechimiah Davidson. "We're relying on our board and Equilink to keep us updated," said McLain. Barron's was unable to reach Rubin for comment.

Davidson, for his part, says: "I'm not involved with the details [of e-Mobile]. I'm very busy with Net2Wireless."

He suggests speaking with Eytan Ramon. Ramon, in turn, told Barron's he was still on the job at Motorola, where he says he has worked for 17 years. He assured us, however, that two people now labor fulltime at eMobile, identifying market needs and working on the technology. "We think we have a big thing on our hands," he maintains. On Thursday, the company announced that Ramon had been named chief executive of e-Mobile.

On such hopes now rest a potential market cap of \$380 million, based on the current price and the 52 million new shares that Western will issue to purchase e-Mobile, plus the three million shares now outstanding. (Western's management and directors will buy Western's heavyequipment business for \$4.7 million.)

So far, Western hasn't disclosed any financial information about e-Mobile in press releases or in the SEC filings. Nor has it submitted the letter of intent for the reverse acquisition to the SEC. So, the investors in e-Mobile haven't been publicly disclosed yet. That said, Katsof observes that the Jerusalem Fund is in the deal. And Rubner tells Barron's that he, his wife or his children are invested in all three of these transactions.

Nice work, if you can get it.

Urge To Merge

A year ago, the three companies at right had nothing in common but struggling stock prices. Then along came a trio of suitors, in the form of Israeli high-tech startups. Investors who bought in on the merger news likely got burned. But because of the large number of new shares that have been or will be issued, insiders will make out even if shares in the merged companies trade at \$2 or \$3.

U.S. Company: Western Power & Equip

Heavy equipment distributor

Israeli Company: eMobile

Developing wireless handheld devices

Pre-Deal Shares Outstanding: 3.30 million

Post-Deal Shares Outstanding: 55.30 million
Stock Price Pre-Deal: 4 1/2
Market Value Pre-Deal: \$14.9 million
Recent Stock Price: 6 11/16
Recent Market Value*: \$380.2 million
U.S. Company: Sensar
Manufacturer of measuring equipment
Israeli Company: Net2Wireless
Technology for high-speed wireless Internet access
Pre-Deal Shares Outstanding: 5.99 million
Post-Deal Shares Outstanding: 43.1 million
Stock Price Pre-Deal: 3
Market Value Pre-Deal: \$18.0 million
Recent Stock Price: 22 1/8
Recent Market Value*: \$952.7 million
U.S. Company: Jenkon International
Software for marketing and direct sales
Israeli Company: Multimedia K.I.D.
Interactive learning centers
Pre-Deal Shares Outstanding: 5.4 million
Post-Deal Shares Outstanding: 34.2 million
Stock Price Pre-Deal: 1 13/16
Market Value Pre-Deal: \$9.8 million
Recent Stock Price: 2 1/16
Recent Market Value*: \$70.6 million
*Based on fully diluted post-deal shares

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Unholy Gains: When stock promoters cross paths with religious charities, investors had best be on guard [AMENDED]

By Bill Alpert

3228 words

30 October 2000

Barron's

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English

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Corrections & Amplifications

Statement

Joseph Gutnick

In the edition of Barron's dated 28 October 2000 Barron's published an article entitled "Unholy Gains".

In November 2000 Joseph Gutnick commenced proceedings against Dow Jones and Company Inc., the publisher of Barron's, in the Supreme Court of Victoria in Australia, seeking damages in consequence of the publication of the article. Mr. Gutnick alleged that parts of the article imputed that he was a customer of Nachum Goldberg, who had recently been imprisoned for tax evasion and money laundering.

Barron's has no reason to believe that Mr. Gutnick was ever a customer of Mr. Goldberg, and has no reason to believe that Mr. Gutnick was a money laundering customer of, or had any criminal or other improper relationship with, Mr. Goldberg. It was not Barron's intention to publish any such allegations. [CORRECTED 25-OCT-04]

Australia is famous for its audacious entrepreneurs. And one of the boldest these days is Joseph I. Gutnick. As a promoter of some of the largest gold mines in the outback, Gutnick, 48, has amassed a fortune once estimated to be as high as \$450 million. With the help of Chase Manhattan, Gutnick is now trying to get investors to put \$500 million in to a hedge fund he plans to run. And only weeks ago, he told the Sydney Morning Herald that he intends to move as much as half his business interests to the United States.

Gutnick's fame is not limited to the financial pages. As president of the Melbourne Demons, the oldest team in the Australian Football League, he has contributed millions to keep the team solvent. He's also a heavy political donor, not just in his home country but also in the political tinderbox of Israel. It was there that Gutnick earned worldwide notice in 1996, when he helped secure the election of hawkish Prime Minister Benjamin Netanyahu.

Gutnick may be most revered for his charitable work. An ordained rabbi, he has supported religious projects worldwide -- particularly those of the ultra-orthodox Lubavitch Hasidic movement, whose Yiddish-speaking members gratefully call him the goldener rebbe, or the golden rabbi. Once asked his formula for getting rich, Gutnick replied: "According to Jewish law, if you give to charity, that is a formula for receiving God's blessing."

But some of Gutnick's business dealings with religious charities raise uncomfortable questions. A Barron's investigation found that several charities traded heavily in stocks promoted by Gutnick. Although the charities profited, other investors were left with heavy losses.

In addition, Gutnick has had dealings with Nachum Goldberg, who is currently serving five years in an

Australian prison for tax evasion that involved charities. Another individual with ties to Gutnick is Judah Wernick, who is now awaiting trial for stock manipulation in New York. Barron's has found that Wernick used religious charities to finance his ventures and manipulate stocks.

In some of the cases Barron's reviewed for this story, stocks were bid up to dizzying heights before the charitable organizations got out, leaving other investors with millions of dollars in losses when the stocks dropped sharply. Several charities contacted by Barron's said they have done quite well investing in penny-stock deals, but they profess no knowledge of manipulation or of how much their so-called benefactors may have made on the deals.

Although Australian securities regulators have investigated Joe Gutnick for half his career, Gutnick has never been charged with any crime. Last year, however, an Australian federal judge did slap Edensor, Gutnick's family holding company, with a \$19 million penalty for what the judge deemed "deceptive and misleading" treatment of public shareholders of a company Gutnick controlled. The case is on appeal. Over the course of two and a half months, Barron's repeatedly asked Gutnick for help in understanding his involvement with the deals uncovered in our reporting. But despite his proven appetite for publicity in other areas, Gutnick did not answer us. Mining the stock market The son of one of Australia's leading rabbis, Gutnick began his career studying at the Brooklyn rabbinical seminary of the Lubavitchers before returning to Melbourne in 1976 to work in a textile business owned by his wealthy father-in-law, Max New. By 1979, with gold prices perking up and Australia's stock market rising, Gutnick began trading with \$22,000 in borrowed money. Gutnick proved an adept investor and promoter, turning his small grubstake into \$45 million, according to *Diamonds and Demons*, a recently published authorized biography of Gutnick by Australian journalist David Bernstein. (All dollar figures in this story are U.S.)

By his own account, Gutnick made more money mining the stock market in the 1980s than by mining the earth. He dealt mainly in thinly traded mining stocks, and at one point he managed three mutual funds that traded in the very stocks he was promoting to other investors.

The stock market crash of 1987 brought Gutnick's self-described paper shuffling to a halt and nearly broke him. He was rescued by \$54 million in loans from a bank owned by the Australian state of Victoria. Some years later, the bank wrote off a substantial portion of those loans as losses.

But Gutnick had even grander backers than the government. In the motif of a Hasidic miracle tale, the leader of the Lubavitchers, the late Rebbe Menachem Mendel Schneerson, predicted several times that Gutnick would discover gold and diamonds in Australia's desert. Indeed, those predictions were mentioned in a video shown at New York brokerage houses such as Datek Securities and Bishop Rosen as part of the 1993 U.S. road show promoting the shares of Gutnick's Great Central Mines. On the video, Gutnick said the rebbe foresaw a discovery "worth billions of dollars." With this blessing from the rebbe, the shares, trading in the U.S. as American depository receipts, surged from 5 to 14.

One beneficiary of this rise was Colel Chabad, a charity promoting religious education, which owned 1.5 million shares in Great Central before the offering of ADRs to U.S. investors. A month after the U.S. offering, by which time the shares had fallen back below 10, Colel Chabad had vanished from the shareholder rolls. This indicates that the charity sold some or all of its shares at or near the peak. "They were one of the lucky ones," Gutnick told his biographer with a smile.

Gutnick's mine never did produce diamonds, but it did prove one of Australia's richest gold producers. After the initial run-up, shares of Great Central Mines bounced between 4 and 10 until the price of gold began to slip in 1997. Last year, Gutnick teamed up with another mining company to buy out Great Central's public shareholders at 95 cents a share. Gutnick's family holding company, Edensor, was promptly sued by the Australian Companies and Securities Investments Commission for misleading public investors. An Australian federal judge socked Edensor with a \$19 million penalty. Gutnick is

appealing the ruling.

Among the other Gutnick stocks whose prices rose on heavy trading in their U.S. ADRs were Astro Mining, Centaur Mining & Exploration and Johnson's Well Mining. But Gutnick's two biggest successes were Quantum Resources and Mount Kersey Mining, which between 1991 and 1997 rose 64,900% and 28,640%, respectively. These and other companies a few of which actually showed operating profits-made Gutnick one of Australia's wealthiest men.

Gutnick has enjoyed his wealth, too, owning a yacht, flying in a private jet and chauffeuring his wife and 11 children in a fleet of Rolls Royces and Bentleys.

Not surprisingly, Gutnick wields political influence in his home country. A generous supporter of Australia's two leading political parties, he is on a list of business leaders who are briefed on government economic policy. Australia's former prime minister, Bob Hawke, sits on the board of Gutnick's Quantum Resources and has helped promote Gutnick's hedge fund. Politics and religion Like many Jews worldwide, Gutnick has taken a keen interest in Israeli politics as well. In 1990, he became the emissary to Israel on behalf of Rebbe Schneerson, reminding politicians of the rebbe's admonition against surrendering land for peace with Arab neighbors. Gutnick has subsidized Jewish residents in West Bank towns, such as Hebron. In 1996, Gutnick sponsored ads that praised Benjamin Netanyahu as "Good for the Jews," and by all accounts, helped Netanyahu clinch the election.

But Diamond Joe, as he's known at home, is most admired for his donations that promote religious aims. For years, Gutnick has sponsored tiny ads on the front page of the New York Times on Fridays, urging Jewish women to light Sabbath candles. Near Rebbe Schneerson's grave in Queens, pilgrims can study and pray in Gutnick-financed hostels. Tithing more than 10% of his earnings, Gutnick is probably the largest underwriter of the Lubavitcher mission, which encourages assimilated Jews to return to Orthodoxy through some 1,200 outreach centers that gird the globe from Marina del Rey to Moscow.

Lubavitcher organizations such as Colel Chabad and Chabad of the Marina, meanwhile, have turned up as significant traders in Gutnick stocks, say Australian securities regulators. Indeed, according to trading records obtained by these regulators, Colel Chabad one year traded upwards of \$8 million in shares of Gutnick-promoted stocks, while Chabad of the Marina traded about \$4 million in Gutnick shares. The Australian authorities wonder if that trading was intended to push up the price of Gutnick shares in a classic stock scam, where outsiders are lured into a stock at rising prices, allowing those in the know to cash out before the price collapses.

Rabbi Shalom Duchman, the leader of Colel Chabad, did not respond to Barron's questions about his organization's stock trading.

Rabbi Shmulik Napartstek, who heads Chabad of the Marina, in Marina Del Rey, California, told Barron's that his organization has held "one or two" Gutnick stocks. "We got them donated to us. They set up an account for us," Napartstek explains. "We don't really trade it. We're just waiting for the right time that we're going to be told to sell it."

And who will tell them when to sell? "Hopefully, Mr. Gutnick will tell us," Napartstek said. And was Gutnick the original donor? "I can't really give you all of the information," said the rabbi, "because I don't know if he wants the world to know."

After that interview, Barron's learned from Australian authorities about the extent of the stock trading being done by Chabad of the Marina. We called Rabbi Napartstek back several times for further comment. He did not return our calls.

Why are so many religious charities making appearances in questionable stock deals? U.S. and Australian money laundering investigators, without citing any particular charities, say that religious

organizations are among the most opaque places to hide financial transactions, in part because they have virtually no legal disclosure requirements. John Moscow, a prosecutor at the Manhattan District Attorney's office and an expert on money laundering, says that Judaism's high regard for anonymous charity sometimes means that the business records of Jewish charities sought by investigators simply don't exist. Other centuries-old ethnic and religious organizations that have been exploited by money launderers include Chinese goldtrading networks and Islamic Halal loan funds, he notes.

Nor are Jewish charities the only religious charities that turn up as investors in tiny companies with little or no operating history. Barron's performed a computer search for all the religious charities that appeared in the registrations to sell shares of tiny companies to the public in the past five years. Churches and organizations ranging from the Emmanuel Pentecostal Church of Dallas to the Baptist Foundation of Arizona to the Marin Catholic High School in Kentfield, California, registered small amounts of stock in tiny companies in those years. But only about 600,000 shares, valued at \$3 million at the time they were registered, appear in the name of non-Jewish groups, while 32 million shares, worth \$98 million, show up in the names of Jewish organizations.

Among these stock-owning organizations is the Jerusalem Fund of Aish HaTorah. While this group has no ties to Joseph Gutnick, the Jerusalem Fund has been an active investor in the stock promotions of Broad Capital, a New York City investment banking firm that specializes in finding investors for tiny firms. About three dozen other charities also turn up as investors in Broad Capital stocks.

Another firm that has repeatedly involved Jewish charities in its penny-stock dealings is Patterson Travis, a New York-based outfit run by Judah Wernick. In most cases, Wernick's stocks ran up in price and then collapsed. Indeed, in 1999, federal prosecutors charged Wernick with stock manipulation in connection with one of these stocks, ML Direct, a marketing firm whose shares showed just such a rise and fall. The trial is scheduled for November. Wernick has denied any wrongdoing. Letters to the court from Wernick's lawyers indicate that he has tried to strike a deal with prosecutors.

Among the dozen or so stock deals underwritten by Wernick was a fledgling alternative energy company called SCNV Acquisition -- a firm that was backed and controlled by Gutnick. This 1998 deal, which collapsed in price almost immediately, has been the only U.S. offering to date of a Gutnick-controlled company. Most of his other stocks were issued in Australia and then traded in the U.S. in the form of ADRs.

Among the investors in other Wernick deals was a Lubavitch seminary called Yeshiva Tomchei Tmimim, which paid \$145,000 for 45% of a preferred stock offering by Medjet, a fledgling medicalequipment company. Yeshiva Tomchei also made \$208,000 in bridge loans to another company Wernick was promoting, a rickety chain of pancake houses called Royal Canadian Foods. Then there is Mosdos Chinuch, a Brooklyn religious organization that bought the second-largest portion of a preferred-stock offering from Red Hot Concepts -- a Wernick stock at the heart of a manipulation case that New Jersey regulators brought against another broker. Mosdos Chinuch also paid \$30,000 for 9% of the Medjet preferred offering mentioned above.

--- [START AMENDMENT] ---

Letter from the Managing Editor: Kafka Lives, Down Under

25 October 2004

To Our Readers

A court in the Australian State of Victoria is expected to finalize a settlement in a few days of a defamation action filed by the businessman, Joseph Gutnick, in response to an Oct. 30, 2000, Barron's article entitled "Unholy Gains." The piece, by senior editor Bill Alpert, focused on stock transactions,

some involving securities in companies controlled by Gutnick or his family, that exploited U.S. religious charities and hurt other investors.

While the bulk of the story was about stock transactions, Gutnick interpreted one brief section as accusing him of money-laundering or tax avoidance in Victoria, even though we didn't intend to make such allegations. Indeed, we stated in the article that Gutnick hadn't been charged with or convicted of any crime. His lawsuit never challenged or even mentioned the remainder of the article, including the portions about the securities transactions involving U.S.-based charities.

The 53 nations of the British Commonwealth have libel laws that, by U.S. standards, are archaic and onerous. In a defamation suit in those lands, the publisher is considered guilty until proven innocent and the evidence that it can present is severely circumscribed. Victoria, however, goes a step farther. Its laws retain a pernicious 19th-century twist: The plaintiff can select an inference that he contends arises from a small passage in the story and sue on that, even if the writer didn't intend to make any such inference. The publisher cannot defend the story on the ground that whatever the reporter did intend to say was true, or that every other criticism of the plaintiff in the story was true, or that the passage meant something else and that was true.

Simply put, because we believed the article didn't carry the meaning Gutnick alleged, the law didn't allow us to defend ourselves meaningfully in court. The verdict, had we gone to trial, would have been foregone. Result: a settlement.

Kafka and Pirandello are alive and well and chuckling in Victoria.

The case also dealt with another issue: Just where should defamation suits involving an Internet publication be tried? Gutnick maintained that it should be where the plaintiff resides, because that's where his reputation could be most harmed. We argued that it should be where we intended the article to be published and where most of our readers are, the U.S. (If an Australian were murdered in Chicago, the accused would be tried there, not in Australia, even though the effect of the crime presumably would be felt most severely by his friends and family in his homeland.)

Australia's highest court agreed with Gutnick. In December 2002, it ruled that when an article is published on the Internet, as stories from our print edition routinely are, the piece is deemed to have been published globally, making the publisher subject to libel claims in any locality in which it's read and where a subject's reputation is alleged to be susceptible to harm. This gave full jurisdiction to the Victoria court even though 95% of our readers are Americans and we wrote about Gutnick only because he was moving his business to the States and his shares were ending up in the hands of U.S. investors.

This ruling's potential chilling effect on anyone engaged in investigative journalism -- be it of stock scams, government misdeeds or even terrorism -- is clear. Already, a judge in Canada, another British Commonwealth nation, has cited the Gutnick decision in allowing a plaintiff to sue the Washington Post for defamation, even though the article at issue was published years before that person resided in Canada.

In its eight-decade history, Barron's has exposed dozens of investment schemes and frauds. We will continue to do so. But unless a rational international accord is reached on the jurisdiction issue, our job will be more difficult, especially when we examine foreigners who have designs on the U.S. market or when we analyze foreign stocks -- an investment category becoming increasingly important to Americans.

As for the Gutnick settlement, we came out of it paying no damages and offering no apologies, although we are contributing about \$150,000, a fraction of his legal costs. We are also printing a statement that appears on page MW9. While we don't have any problem confirming what our article

did or didn't report, the wording of the statement could very well have been lifted from Dickens' Bleak House, a Victorian novel whose focal point is an endless lawsuit. Perfectly fitting, in our view, for something crafted by modern-day lawyers to satisfy an outdated and unfair Victorian law and to settle a case based on something we don't think we said.

Richard Rescigno

[END AMENDMENT]

Money Machine

By Bill Alpert

767 words

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When it comes to cultivating religious charities, and drawing them into stock deals involving tiny companies, Murray A. Huberfeld and David B. Bodner seem to be without peer. "Mssrs. Huberfeld and Bodner are among the top philanthropists in the Jewish world," says Rabbi Irwin G. Katsof, executive vice president of the Jerusalem Fund of Aish HaTorah in New York City. "There are organizations waiting in line to see them."

Bodner and Huberfeld run Broad Capital, one of the leading outfits for funneling investments into small publicly-traded companies with scant operating histories ("Let's Make a Deal," Barron's, June 26). With green marble floors and lush cherry paneling, their offices high above Carnegie Hall project an image of prosperity and propriety. But appearances can be deceptive. In fact, this pair, both former stockbrokers at Datek Securities, got booted from the brokerage industry after their 1990 arrest for sending imposters to take the broker's license exam on their behalf. In 1992, each pleaded guilty to a misdemeanor charge.

Broad Capital is not a brokerage firm, but rather does its investment banking business on the unregulated fringes of the securities industry. And Bodner and Huberfeld's regulatory history doesn't suggest loving kindness. In 1996, Huberfeld settled administrative charges with the Securities and Exchange Commission, without admitting or denying guilt, that he had fraudulently promoted a mining stock. Then, in 1998, the pair disgorged \$4.6 million to settle SEC charges, again without admitting or denying guilt, that they'd gotten shares of another stock illegally from a company director.

Among the investors in stocks promoted by Broad Capital in the past six years are some three dozen religious charities, accounting for 18 million shares valued at \$66 million when they were registered with the SEC for sale to the public. One charity that's been enriched by these deals is the Jerusalem Fund of Aish HaTorah, a religious education charity that has been popular with showbiz celebrities, including Larry King and Kirk Douglas. Rabbi Katsof says his organization lacks the resources to hire professional money managers, so it relies instead on a board member to review its investments. But when it comes to investing in small stock deals, Bodner and Huberfeld seem to call the shots.

"We trust David Bodner and Murray Huberfeld," he said when asked how the charity came to invest in Multimedia KID, a Broad Capital deal. He added that he knew nothing of the duo's past problems with regulators. Questioned about another Broad stock called Sensar, he said, "Mssrs. Huberfeld and Bodner gave us the opportunity to invest in this company. . . . Their deals have worked, as far as I know."

He should know. As it turns out, Rabbi Katsof has personally invested in at least seven Broad Capital stocks, several of which stocks turn up in the coffers of the Jerusalem Fund as well. In two Broad Capital stocks, Emerging Vision and Jenkon International, Katsof personally held shares worth more than \$1.2 million at the time they were registered for sale to the public. Indeed, he received \$630,000 worth of those shares as a finder's fee for helping to put Multimedia KID, an Israeli company, in touch with Jenkon International, the U.S. shell company it subsequently merged into. Through such a merger, a company can become publicly traded without disclosing as much about itself as it would have to if it

chose the more typical route, an initial public offering.

After our interview with Rabbi Katsof, he did not respond to e-mails, faxes and other messages asking about his personal investments in stocks promoted by Broad Capital. Bodner and Huberfeld, through their attorney, reject any suggestion of impropriety.

Large pieces of Bodner and Huberfeld deals also turn up in the hands of obscure non-profit entities, like the Ezer M'Zion Organization and the Ace Foundation. Ezer M'Zion is an Israeli charity with its New York location in David Bodner's home. The Ace Foundation is a private philanthropic foundation with the Brooklyn address -- and initials -- of Aaron Elbogen and his wife Chaya. As it happens, Elbogen was the Datek Securities principal who prosecutors claimed set up the exam scam that got Bodner and Huberfeld in trouble. The charges against Elbogen were later dropped. He did not respond to requests for comment.

Datek Securities, it should be noted, is the former parent of Datek Online Holdings, the well-known online broker. Two years ago the two firms split, allowing Datek Online to shed the parent company's lengthy disciplinary record.

Daily Deal (New York, NY)
December 14, 2000 Thursday

Unorthodox investments

BYLINE: by Stacy Mosher

SECTION: M AND A

LENGTH: 1643 words

HIGHLIGHT: Does cultural insularity open the door for affinity fraud?

In an investment climate fraught with peril even for experienced investors, it's hardly surprising that many ordinary investors seek the guidance of experts. But what if the expert turns out to be less than trustworthy? And what if the investments turn out not much better than if you'd thrown darts at the newspaper stock tables?

These are some of the questions now facing some members of New York's Jewish community, in particular the culturally insular community concentrated in Brooklyn's Borough Park. The Borough Park Jews, most belonging to ultra-orthodox groups such as the Hasidim, prefer to deal with their own. But this very insularity often provides a perfect environment for so-called affinity fraud, in which vulnerable people are exploited by members of their own group.

The question now is whether this happened at the hands of two businessmen in New York's Jewish community, David Bodner and Murray Huberfeld, who have guided--by example, if not directly--investments for a number of Jewish non-profit organizations.

Among these groups is the Jerusalem Fund, whose head, Rabbi Irwin Katsof, once described the duo as "among the top philanthropists in the Jewish world."

But this endorsement runs counter to the mounting suspicions of federal regulators, who have expressed reservations about Bodner and Huberfeld's integrity. Of course, a history of sharp practice may merely indicate the kind of market expertise useful in navigating high-risk investment that can lead to higher profits.

Yet, available information shows that the Orthodox non-profits that invested in companies along with Bodner and Huberfeld often lost money on their securities investments.

Of perhaps greater concern are Bodner and Huberfeld's business connections with David Schick, a lawyer and businessman who in November 1997 pleaded guilty to a massive real estate Ponzi scheme that defrauded a large number of mostly Orthodox individuals and organizations in the United States, Europe and Israel to the tune of \$80 million. Schick was the first legal agent for Broad Capital Associates Inc., an investment company owned by Bodner and Huberfeld.

The Jerusalem Fund and other Orthodox non-profits began making their investments in the Bodner/Huberfeld companies during the mid- and late-1990s, an era in which a number of Orthodox organizations were found to have been the victims of, or participants in, investment schemes involving money laundering, fraud and other crimes.

The Schick association raises the question: Were dud investments the result of honest mistakes or part of another sophisticated rip-off?

Neither Bodner or Huberfeld would return repeated phone calls on these matters.

Securities and Exchange Commission filings indicate that at least eight Jewish non-profit organizations have invested in at least 17 different companies in tandem with Bodner and Huberfeld. The investments

are sometimes in the names of Bodner and Huberfeld, sometimes in the names of their wives and sometimes in the names of companies described in SEC filings as being controlled by their wives. Another frequent co-investor with the charities is Seth Joseph Antine, a principal of Broad Capital. Bodner and Antine also are officers of one of the non-profits, an Israeli medical charity, Ezer M'Zion Inc.

Typically, four to six of the non-profit organizations have invested in each of the companies with these investors in common, along with the Broad Capital principals. (For the sake of clarity, these companies will hereafter be referred to as the Investment Group.)

Investments usually are made as part of private placements or convertible debentures, and frequently occur at key stages in a company's development, such as just before a merger.

Bodner and Huberfeld have been particularly active investors in companies involved in reverse mergers, in which a dormant public company buys up an active private company, taking on the private company's name and operations. Typically, the shareholders of the private company become majority shareholders in the newly revived public company and benefit from the almost inevitable ramp-up in share price the public company enjoys around the time of the merger. When shareholders sell off their shares to take profit, the price in the reverse-merged company usually drops precipitously.

Late last year, Bodner and Huberfeld became involved in three reverse mergers involving dormant public companies in the U.S. combining with private Israeli technology firms. The Jerusalem Fund was noted in press reports as an enthusiastic investor in all three firms, and records show that other Orthodox non-profits were also among the investors.

But one of the mergers has already fallen by the wayside because of regulators' concerns. Last week technology holding company Sensar Corp., cancelled its planned merger with Net2Wireless Corp. after failing to placate Nasdaq's concerns regarding prior regulatory proceedings against the Israeli company's two largest shareholders.

According to SEC filings, the two largest shareholders of Net2Wireless, apart from the founder, are companies controlled by the wives of Bodner and Huberfeld. Nasdaq expressed "serious concern" that these shareholders, along with certain other Net2Wireless stock and warrant holders, would be able to manipulate Sensar's share price.

Nasdaq insisted that the two shareholders would have to sell their stock, failing which, Sensar would be delisted after the merger. "I've never seen them Nasdaq this harsh," Sensar Chairman and CEO Howard Landa said. "I was shocked at their attitude." Shares in Salt Lake City-based Sensar, which soared to \$67.44 in March, are now trading around \$1.50.

In July, the Nasdaq Listing Qualifications Department sent a letter to another of the public companies, Western Power & Equipment Corp., requesting further information on its planned merger with e-Mobile Inc., including details on the involvement of, among others, the Bodners and Huberfelds, Katsof, and the Jerusalem Fund. The merger has not yet been consummated.

Earlier this year, Huberfeld and Bodner were shareholders in a company called MainStreetIPO.com, formed to circumvent use of an underwriter in an IPO by auctioning off shares directly over the Internet. The main shareholder of the company was Joseph Salvani, described in a 1998 Forbes article as a "master tout" who manipulated the market through stock promotion.

MainStreetIPO was supposed to go public this year through a reverse merger with Nasdaq-listed Dialysis Corporation of America, but in August Dialysis announced the merger was off because of MainStreet's inability to satisfy "certain regulatory issues" raised by the SEC.

Although Bodner and Huberfeld were not named in the Sensar or MainStreet notices, there is no

question that they have faced regulatory problems and shareholder disgruntlement in the past.

Salvani was involved in Bodner and Huberfeld's most recent controversy, which involved an Investment Group company. In 1999 the former president of Tampa, Fla.-based Divot Golf Corp. (formerly known as Brassie Golf Corp.) filed a lawsuit accusing Salvani, Huberfeld, Bodner and former company CEO Joseph Cellura of manipulating the company's stock price in 1997 to maximize the returns on a loan made to Divot in return for convertible debt, common stock and warrants. The case was settled out of court.

In 1998, the SEC charged Broad Capital, Huberfeld and Bodner with trading violations relating to Incomnet Inc. and required disgorgement of profits and interest totaling nearly \$4.7 million plus civil penalties. A group of Minnesota investors also sued Huberfeld and Bodner for helping to artificially inflate the Incomnet stock.

In 1996 the SEC charged Broad Capital and Huberfeld with unregistered trading of shares in a Canadian company, Wye Resources Inc. Broad Capital and Huberfeld were ordered to return profits and interest totaling \$426,780.

And in 1990 Bodner and Huberfeld were charged along with five others on allegations that two men, including Bodner's brother, Moishe Bodner, took the NASD broker qualifying exam for David Bodner, Huberfeld and two others. The case was dismissed against all seven men.

One of the other defendants, Aaron Elbogen, has also turned up as an investor in the Investment Group companies through an organization called the Ace Foundation. Elbogen, a community activist in Borough Park, was founder of Datek Securities, where some of the defendants in the 1990 case were employed. He now heads Heartland Securities Corp., the successor to Datek Online Corp.'s trading operation.

In addition, records show that Elbogen was associated with The Israel Trading Fund, a small firm no longer in operation that shared Datek's Broad Street, New York, office and that also invested in one of the Investment Group companies in 1998.

A civil case in 1999 alleged that Datek Securities committed securities fraud by manipulating the stock price of Fortune Petroleum Corp. to the benefit of The Israel Trading Fund and six foreign investors who resold their shares through a Datek account. According to his NASD filings, Moishe Bodner was associated with a rabbinical academy in Brooklyn, Mesivta Rabbi Chaim Berlin, from 1984 to 1994. In June 1994 the Mesivta purchased 18,000 shares in an Investment Group company, EA Industries Inc.

In 1995, he was employed at a company called American Third Market Corp, one of several companies operated by Israel A. Englander, a member of the American Stock Exchange, whose company Millenco also has invested in a number of companies in the Investment Group.

The second part of this report will examine how these non-profit groups fared in investments made with this circle of businessmen.

Daily Deal (New York, NY)
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Unorthodox investments II

BYLINE: by Stacy Mosher

SECTION: M AND A

LENGTH: 1804 words

HIGHLIGHT: In an investment climate fraught with peril even for experienced investors, it's hardly surprising that many ordinary investors seek the guidance of experts. But what if the expert turns out to be less than trustworthy?

Like religion, playing the markets demands a kind of faith. Faith in the dogma of investment practice, in the possibility of redemption, even in the infallibility of the markets.

And faith in wise men, too. That's why the securities business, whose precepts can be as cryptic as the most opaque theology, is as replete with false prophets as the spiritual realm.

As Part One in our series outlined last week (see "Unorthodox Investments, Dec. 15), two such men - David Bodner and Murray Huberfeld - had the faith of many adherents in New York's Jewish community, especially among non-profit organizations investing money for their Orthodox and Hasidic congregants

But an examination of Bodner's and Huberfeld's careers raises question not only about their record as financial advisers, but also their claim to the trust of investors they represented.

Many of the investments that the Jewish non-profit organizations made along with the duo were distinctly speculative, compared with conservative practices of most non-profit organizations. Naturally, higher risk can also bring higher profits. So how did the organizations actually make out on their securities investments?

Many non-profit organizations are required to file Form 990 with the Internal Revenue Service, which disclose how much they gained or lost on their investments.

Information provided by The Jerusalem Fund for the years 1997-99 shows an overall gain of 2.5% on securities investments in companies recommended by Bodner and Huberfeld, referred to as Investment Group companies. That includes a loss of 51%, or \$575,496, in 1998, and a profit of 46% in 1999. (Apart from equity losses in 1998, the Fund also saw a decrease in market value of property assets of nearly \$2 million - half the purchase price, at a time when New York real estate was soaring.)

Information provided by non-profit Ohr Somayach for the years 1996-99 show an overall gain of 2%. That includes a loss of \$127,009, or 1.86%, in 1998. The group's filings provide little detail on its securities trading apart from investment in funds. However, the 1997 filing shows that shares in an Investment Group company, International Nursing Services, purchased for \$20,000 in 1996, had depreciated to a market value of \$3,441.

Information provided by Ezer M'Zion, the Israeli medical charity, for 1996-99 shows an overall return of 27.5%. But that includes a loss of \$213,504, or 15% in 1999. Returns steadily decreased from 67.65% in 1996 to 36% in 1997, and 7.2% in 1998. Most of Ezer M'Zion's investments have been in Investment Group companies.

The Jerusalem Fund and Ohr Somayach would have made more money in the past few years by keeping their funds in an ordinary savings account. While Ezer M'Zion has come out ahead over a four-year period, it had to deal with a substantial loss in 1999 when other investors were benefiting from the bull market.

Since yeshivas and other purely religious organizations are not obliged to file Form 990s, the results of their investments are not open to public inspection.

Moshe Toiv, who was CEO of Ezer M'Zion in 1998 and 1999, said he knew nothing about the organization's investments or who handled them. Attempts to contact people responsible for several of the other non-profits were unsuccessful.

SEC filings suggest that the Orthodox non-profits have been less active in Bodner/Huberfeld companies in 2000.

While it appears that the non-profits have received only a mixed benefit from their investments, what is less clear is how Bodner and Huberfeld may have benefited by involving the organizations in their investments.

The Jerusalem Fund of Aish HaTorah was established to curtail assimilation into secular U.S. society through promotion of Jewish self-worth. The organization's current president, Rabbi Irwin Katsof, is known as the "Rabbi to the stars" because of his high-profile networking among the rich and famous.

Aish HaTorah has been particularly active in promoting business relationships between the U.S. and Israel. It sponsored the largest high-tech conference in Israel's history in October 1999 as a means to "encourage Jewish pride." According to the Jerusalem Post, the conference generated \$40 million dollars in investments.

The Jerusalem Fund co-sponsors one or more Israel missions each year honoring business figures and politicians for their contributions. The missions include banquets with the Israeli prime minister and other top officials.

Murray Huberfeld was chairman of the 1998 mission, the honorees of which included Jeffrey Citron, the CEO of Datek Online (founded by Aaron Elbogen, an old acquaintance of Huberfeld and Bodner), and Glenn S. Meyers, CEO of Rare Medium Inc., one of the companies in the Investment Group.

The chairman of another Investment Group company, Fusion Networks Holdings Inc., Hernando Bahamon, was one of the recipients of this year's Einstein Technology Award.

The publicity and the contacts are undoubtedly valuable to the honorees. But while the Fund receives some contributions and revenues in connection with the missions, it always suffers losses: \$339,862 on the Jerusalem Mission for 1998 and a net loss of \$93,728 on two Israel Missions in 1999. In effect, the Fund subsidized business networking opportunities for American and Israeli businessmen.

Bodner and Huberfeld have been lionized in the Jewish community for their charitable work. But then, so was David Schick before he admitted defrauding Jewish organizations and individuals of \$80 million. During the 1990s, Schick convinced his victims to invest in "mortgage flip" deals, then pillaged the funds held in escrow.

But according to news reports, investigators suspected that Schick's Ponzi scheme was only part of a series of overlapping frauds.

In particular investigators found links between the Schick scam and the looting of funds from National Heritage Life Insurance Co.

According to Judy Hunt, an assistant district attorney in Florida who handled the National Heritage Life case, Schick testified for two weeks "on a wide range of matters" relating to the insurance scandal

during a nine-month trial ending in November 1999.

Several people were convicted or pled guilty to stealing \$400 million from the insurer, with an 845-year sentence imposed on Brooklyn-born businessman Sholam Weiss.

Apparently because of his assistance in the investigations, Schick has still not been sentenced. The Tampa and Brooklyn U.S. District Attorney's offices declined to comment on Schick's possible cooperation in other cases.

So how is David Schick connected with Bodner and Huberfeld? Apart from being registered as Broad Capital's legal agent when the company was formed in 1989, Schick turns up as chairman of Lakewood Trading Group, which in 1995 invested in two Investment Group companies along with Bodner and Huberfeld and some Orthodox non-profit organizations.

Lakewood Trading shares its Monsey, N.Y., address with Bodner, and with the Huberfeld-Bodner Family Foundation Inc., which is one of the vehicles used by the pair and their wives for investing in companies in the Investment Group. Lakewood Trading was dissolved in June 1996, shortly after Schick's arrest on May 22.

In addition, Schick and Murray and Philip Huberfeld (Murray's father) are principals of the Gotham Food Group Enterprises Inc., which trades as Kosher Delight, the operator of a chain of glatt fast-food restaurants in New York City.

Another principal of Broad, Seth Joseph Antine, was president of the Gotham Food Group from 1991 to 1993 and is still on record as manager of Kosher Delight.

Records also show a company named 1221 Avenue J Associates Inc. with a process address in care of Broad Capital Associates at an apartment in Trump Tower. The company owns an address on Avenue J, Brooklyn, also associated with Kosher Delight. 1221 Avenue J Associates was dissolved in September 1997.

Perhaps the most compelling connection relates to a case filed in the New York Supreme Court in Kings County in 1994 against brothers David and Moishe Bodner by a Brooklyn couple, Shlomo and Chana Rizel.

According to court documents, in 1988 and 1989 Moishe Bodner persuaded the Rizels to make a number of "safe and conservative" investments in rental properties through companies he controlled.

At first the Rizels received monthly checks relating to their investments, but sometime in 1991 the checks stopped arriving. Upon inquiring, the Rizels learned that the companies were now being handled by David Bodner, and that three of the four properties in which they had invested were being liquidated in bankruptcy proceedings. The Rizels' money in the meantime disappeared among the accounts of other Bodner-controlled companies.

Eventually the court made a default judgment against Moishe Bodner, and David Bodner settled with the Rizels in October 1997, a month before Schick's guilty plea. An examination of the records of the companies involved in the Rizel investments shows that almost all had Schick as their legal agent.

Repeated attempts to contact Bodner and Huberfeld regarding Schick and the investments of the non-profits met with no response.

Allegations of investment improprieties are nothing new to New York's Jewish community. Around the time Schick was confessing, Jewish publications began to reflect an uneasiness in the community about a willingness to tolerate criminal activity--charges were made of money laundering and embezzlement--in order to finance religious institutions, particularly the vast, financially strapped network of Orthodox Jewish academies.

Today, it's unlikely that anyone is profiting from the Investment Group companies today. Most are trading on the OCTBB or the pink sheets for pennies a share, with only three trading at over \$1:

Divot Golf Corp. (now OrbitTravel.com Corp.)--\$0.011; Western Power & Equipment Corp.-- \$0.75; Mark Solutions Inc.--\$0.1875; EA Industries Inc. --\$0.002; Sensar Corp.--\$1.25; Multimedia K.I.D. Inc.--\$0.125; Messagemedia Inc.--\$0.75; Emerging Vision Inc.--below \$0.50; Imagematrix Corp.--\$0.001; Sedona Corp. --under \$1; Vertex Computer Cabel & Products Inc.--\$0.29; Medix Resources Inc. --under \$1.25; Cels-Sci Corp.--\$1.25; SA Telecommunications Inc. \$0.01; Pacific Chemical Inc.--\$0.001; Fusion Networks Holdings Inc.--\$0.35; Marketing Services Group Inc.--under \$1.50.

According to a source, Broad Capital has effectively ceased operations, but Bodner and Huberfeld have already made enough to retire as wealthy men. The question remains whether a new and irresistible deal will draw them back into their unorthodox investments.

Review & Preview Follow-Up

A Return Visit to Earlier Stories -- What's That Smell? Three tech mergers turned into stinkers

By Jacqueline Doherty

496 words

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When the stocks of three small, unrelated U.S. companies skyrocketed after proposing mergers with little-known, privately held Israeli tech companies, Barron's thought something smelled fishy. Our suspicions grew after learning that David Bodner and Murray Huberfeld, two gents with a history of run ins with the Securities & Exchange Commission, had ties to the Israeli companies ("Let's Make a Deal," June 26).

Time has proved our suspicions correct. The shares of the three, Multimedia KID, Sensar and Western Power & Equipment, have all fallen by 80% or more.

Multimedia KID, an Israeli-based developer of interactive educational products, merged with U.S.-based Jenkon International in August 1999. The merged entity ran out of operating funds last month, and the Nasdaq SmallCap Market delisted its shares, which had fallen to just pennies. The stock traded hands at 2.06 at the time of our story.

Next in our trio comes Sensar, a Salt Lake City-based shell company. It planned to merge with Net2Wireless, an Israeli-based developer of compressed digital cellular technology. Investors were so excited about the promise of Net2Wireless that they sent shares of Sensar soaring to a peak of 89.88 in March. At that price, the merged company would have had a market value of \$3.9 billion. But the excitement faded fast after Nextel Finance, a unit of the wireless-phone company, terminated an agreement last fall to purchase one million shares of Net2Wireless at \$32 each.

Making matters worse, the Nasdaq objected to the pending merger and said it would delist Sensar shares if the deal went through. "On November 20, 2000, the staff of Nasdaq contacted Sensar and informed (Sensar) that it had concerns arising out of prior regulatory proceedings against certain Net2Wireless stockholders," Sensar reported in regulatory filings. The stockholders were not named.

Last week, the company announced plans to buy a minority stake in Nex2, an information-service provider to the insurance and health-care industries. The news hasn't helped Sensar shares, which have fallen from 22.13 at the time of our story to just 1.75. Sensar's current market capitalization: \$14 million.

Then there's Vancouver, Washington-based Western Power & Equipment. This heavy-equipment distributor was to merge with e-Mobile, an Israeli-based company that hopes to develop handheld devices to access the Internet. This deal fell apart early this month "due to changes in the marketplace's valuation of technology companies and its concern as to the potential delay in obtaining Nasdaq approval of the transaction," according to a company press release.

Among other things, the Nasdaq Listing Qualifications department had asked the company for information about its relationship with Murray Huberfeld, David Bodner and their firm, Broad Capital. Western's shares have fallen to 1.06 down from 6.69.