Offshore and NSS: the Sedona story

**Q1 what is offshore?**

I explain

 **Q2 how is it used for nefarious purposes?**

I explain

 **Q3 can you give an example of where offshore has enabled naked short selling>**

 It’s The Sedona Story

Brothers Andreas and Thomas Badian arrived from Vienna in the late 90s to set up a financial shop in New York.

Badian, then 30, had come from Vienna a few years earlier and had worked for Jesup & Lamont, a New York brokerage and investment banking firm. There Badian met Michael Vasinkevich. He had been running PIPE deals, which means private investment in public equity.

Vasinkevich moved to the New York investment firm Ladenburg Thalmann, Badian set up Rhino Advisors in New York to collaborate with Vasinkevich. Working with Badian was his brother, Andreas, 26. They were introduced as investment advisers for clients.

They would run naked short selling scams connected to offshore shell companies.

Everything went through offshore. British Virgin Islands, panama, Zurich, Liechstenstein: all offshore.

**Q Why offshore?**

To cover up the real owners and evade SEC rules for reporting ownership. The SEC has declined to require identification of the people behind such firms.

The Badians advised and managed funds for two overseas clients, which they really owned, Creon Management, based in the British Virgin Islands and Amro International, registered in Panama and based in Zurich, Switzerland. All offshore.

Vasinkevich worked with a Herbert Batliner, a prominent fraudster in offshore Liechstenstein, U.S. prosecutors told a Colorado federal court that Batliner had handled money for a drug dealer who was serving a prison sentence in Ecuador.

These partners struck at Sedona, a Pennsylvania software firm,

Vasinkevich of Ladenburg Thalmann contacted Sedona in August 1999 with a promise of money. It would locate investors and sell shares through private placement. PIPE,. Ladenburg’s investor was the Rhino/Batliner Group. Sedona agreed to the proposition. They company trusted the reputation of Ladenburg Thalmann.

Rhino, in November 2000, lent Sedona $2.5 million that could be converted into shares worth $3 million about a year later. The money they received was channeled through the fake offshore investment firms the Badians controlled.

The contract with Amro said "no shorting." Short selling would push down the share price, and the less the stock was worth when it came time to convert the loan to shares, the more of the stock Amro's “investors” would get.

What happened is called a "death-spiral" scheme. The financiers promise a large line of credit in exchange for convertible securities which can in future be converted into shares of common stock. The more the stock goes down, the more shares the owner of the convertible security can claim on converting.

Confident in Ladenburg Thalmann, Sedona officials never questioned why Rhino's investor, Amro International, was a triple-layered offshore entity: a Panamanian corporation headquartered in Zurich and financed via Liechtenstein, all prominent tax havens that sell registrations for fake companies that have been used for criminal endeavors world-wide.

The Sedona stock price started at $6. It would fall to 20 cents even as it announced deals with IBM and other stock-boosting evens.

With local confederates, Andreas Badian naked shorted the stock. increasing the shares in the market and therefore depressing their price. The loan would have to be paid back with many more shares, giving the Badians control of the firm.

Two of his confederates worked for Refco, which was the the largest broker on the Chicago Mercantile Exchange. Its CEO would go to jail on another scam.

Andreas Badian was thrilled when he learned that the stock had fallen below a dollar. He phoned his confederates with directions to “keep selling” and to use “unbridled levels of aggression,” because “every dollar of that you sell is a dollar in my pocket.”

Sedona one day received an investigator’s 330-page ring binder with analyses of 60 companies destroyed by Rhino, Batliner and similar operators. Sedona started smelling the rat. The next time, Badian demanded a conversion Sedona refused. Badian filed suit. Sedona countered with subpoenas for the trading records of Rhino and Amro. The documents would have revealed their naked short selling scams. Within a week, Badian withdrew the suit. He agreed not to ask for any more stock.

In 2003, Sedona hired Houston lawyer Wes Christian and he filed a civil action against Ladenburg Thalmann, Vasinkevich, Badian, Rhino and others

the lawsuit in U.S. federal court in New York, said the defendants ran the same death-spiral scam against at least 21 U.S. companies from 1998 through 2000. The firms either went bankrupt, or their shares were knocked down to pennies.

Among the companies were Viragen, a bio-pharmaceutical company and Calypte Biomedical Corporation, which developed medical screening tests. Both companies we might like to have now.

Sedona went to the SEC and the Justice Department. The SEC, got tapes of Andreas Badian’s calls,

the SEC in February 2003 filed a complaint against Thomas Badian and his company, Rhino, for fraud and market manipulation of Sedona shares. Badian and Rhino immediately settled with the SEC for a $1-million fine without admitting or denying guilt.

the SEC filed a case against Andreas, which after years of delays was scheduled for hearing in New York federal court (in January 2013.) But before the court date, Andreas settled for $450,000. The Justice Department filed criminal charges against Thomas, who fled to Vienna,

Austria, which touts its bank and corporate secrecy and has no extradition treaty with the U.S. for financial crimes. The Department dropped its criminal case against Andreas. It declines to say why. So the crooks paid small change

But let’s look at the system which enabled their fraud and which still exists. Offshore.

Why do these fraudsters use offshore companies.

Sedona’s lawyer Wes Christian explained: "It’s done through offshore companies, because in the U.S. if you have 5 percent interest in a company, you have to report. So in PIPE deals they come in with three different names, so in theory the shares won’t go above 5 percent. Most of them are developed for one or two deals.” He said, “They kill the company.”

Christian said, “Batliner was there to launder the money. To take dirty money from Liechtenstein and turn it into clean money so it could be lent to companies through PIPES.”

He noted Amro’s location in Zurich and said, “Switzerland is now a conduit to Liechtenstein, the last place for secret banking.”

He said that lawsuits show that illegal shorters use shell companies in offshore Guernsey, the Caymans, Costa Rica, the Isle of Man, Nevis, Curacao, Netherlands Antilles, and the Bahamas as well as Batliner’s Liechtenstein.

Christian and lawyers cooperating with him on naked short selling cases have found more than 1,200 hedge fund and offshore accounts working through more than 150 U.S. broker-dealers to strip small and medium size public companies of their value.

Christian said the Badian group, did 40 equity loans, promised $1 billion. The Badians put them all out of business.

 The US govt chose to go after the low hanging fruit, the Badians. Thomas Badian fled to Austria. The feds never got him. There’s still a warrant out on him. But the feds had the goods on the stock clearing firm, the broker dealers, but dropped it all.

And that their tactics were helped by the SEC, which in the name of globalization had opened the markets to offshore brokers and hedge funds without realizing they would never be able to monitor their activities or regulate their conduct.

Individuals could set up offshore firms without providing identification. The offshore accounts were hidden and protected through layers of shell companies and trusts in numerous jurisdictions. Using nominee firms, owners could finesse rules requiring reporting ownership of 5 percent of stock.

They could gain secretly complete control of a public company. Or they could bleed it of all its liquid assets until it was bankrupt.

According to the Sedona lawsuit, during Vasinkevich’s tenure, the investment company and Badian were involved in other death spiral deals that drove companies into the ground. One in 1999 knocked the stock of WaveRider Communications, Inc. from $15.84 to a penny. Another PIPE deal with Ameriquest Technologies, Inc. in 2000 saw the shares fall from 50 cents to one-hundredth of a penny. The “investors” in both cases, as in the Sedona deal, were shell companies run by Batliner.

Christian commented, “Every company that came to Michael Vasinkevich is out of business or has stock at a penny level. You tell me. If it moves, has an udder, as we say in Texas, we call it a cow.”

in September 2012, Christian settled the Sedona lawsuit with Ladenburg. He said, “We are happy with both settlements” which he said were “confidential.”

**Q The moral**

The U.S. has to ban anonymous investments in U.S. companies. Not just over 5%.

It has to know the identity of the owners of offshore companies that invest in the U.S., including their ownership links to other offshore companies.

Of course, U.S. to ban naked short selling by putting perpetrators in jail, not just fining them miniscule amounts they consider the cost of doing business.

Finally, the U.S. should block the offshore system which exists to facilitate fraud by preventing offshore accounts from having access to the U.S. financial system. As it does for bank transfers from Iran, North Korea, Syria where such transfers are considered facilitators of terrorism.