



PRESS RELEASE

Corporate Executives, Registered Brokers And An Attorney Indicted For Orchestrating A \$300 Million Market Manipulation Scheme Involving Four Publicly Traded Companies

Thursday, July 17, 2014

For Immediate Release

U.S. Attorney's Office, Eastern District of New York

Defendants Profited By Selling To Elderly Investors Worthless Stock Of A Company That Purported To Provide Medical Coding Training Required By The Affordable Care Act

A ten-count indictment was unsealed this morning in federal court in Brooklyn, New York, against seven defendants, Abraxas J. Discala, also known as "AJ Discala," the Chief Executive Officer of OmniView Capital Advisors LLC ("OmniView"); Marc Wexler, the Managing Director of OmniView; Ira Shapiro, the Chief Executive Officer of CodeSmart Holdings, Inc. ("CodeSmart"), a publicly traded company; Matthew Bell, a registered broker and investment adviser representative; Craig Josephberg, a registered broker; Kyleen Cane, an attorney; and Victor Azrak, the Vice President and Director of Excel Corp., a publicly traded company.¹ The charges include securities fraud, wire fraud and conspiracy to commit securities fraud, mail fraud and wire fraud in connection with the fraudulent market manipulation of four publicly traded companies -- CodeSmart, trading under the ticker symbol ITEN; Cubed, Inc. ("Cubed"), trading under the ticker symbol CRPT; StarStream Entertainment Inc. ("StarStream"), trading under the ticker symbol SSET; and The Staffing Group, Ltd. ("Staffing Group"), trading under the ticker symbol TSGL. In addition, the government restrained Discala's residence in Norwalk, Connecticut, worth over \$1 million, and seized a dozen bank and brokerage accounts containing criminal proceeds.

Shapiro, Josephberg and Azrak will be arraigned later today before Magistrate Judge Robert M. Levy, at the United States Courthouse, 225 Cadman Plaza East, Brooklyn, New York. Discala, Wexler and Cane's initial appearance for removal proceedings to the Eastern District of New York is scheduled for this afternoon at the United States Courthouse, 333 S. Las Vegas Blvd., Las Vegas, Nevada. Bell's initial appearance for removal proceedings to the Eastern District of New York is scheduled for this afternoon at the United States Courthouse, 655 E. Cesar E. Chavez Blvd., San Antonio, Texas.

The indictment was announced by Loretta E. Lynch, United States Attorney for the Eastern District of New York, and George Venizelos, Assistant Director-in-Charge, Federal Bureau of Investigation, New York Field Office (FBI).

"Discala and his company insiders, registered brokers, investment advisers, an attorney and corrupt investors designed an elaborate but fraudulent scheme built on lies, deceit and manipulated trading activity to defraud the securities markets and the investing public. They took companies with essentially no assets or activity and deceived the market into believing they were worth hundreds of millions of dollars through a dizzying round of insider and unauthorized trades. When the defendants stopped their criminal game of musical shares it was the unsuspecting investors who were left holding the bag. The defendants abused their positions of trust and preyed upon unsuspecting and elderly investors, oftentimes placing worthless stocks in their retirement accounts, to perpetrate this far-reaching fraud," stated United States Attorney Lynch. "Today's seven arrests, across five states, reflect the scope of this fraud and our commitment to aggressively locate and bring to justice those who abuse our financial markets in order to fraudulently enrich themselves." Ms. Lynch expressed her grateful appreciation to the FBI, the United States Securities and Exchange Commission and the Texas State Securities Board for their significant cooperation and assistance in the investigation.

"As outlined in the indictment, the defendants engaged in a coordinated and sophisticated scheme to manipulate the share price

and trading volume of four publicly traded stocks for personal gain. This lucrative scheme to manipulate our financial markets made the defendants money, while draining the bank accounts of innocent investors. Their client-victims trusted them to manage their money as if it were their own, not to steal it. Together with our partners in both law enforcement and the private sector, to include the Securities and Exchange Commission, we remain vigilant in identifying and bringing to justice those who look to profit at the expense of hard-working Americans,” stated FBI Assistant Director-in-Charge Venizelos.

I. Overview

As alleged in the indictment and other court filings, between October 2012 and July 2014, the defendants, together with others, agreed to defraud investors and potential investors in four public companies: CodeSmart, Cubed, StarStream and Staffing Group (collectively, the “Manipulated Public Companies”) by artificially controlling the price and volume of traded shares in the Manipulated Public Companies through, among other things: (a) false and misleading press releases; (b) false and misleading SEC filings; (c) fraudulent concealment of the defendants’ and their co-conspirators’ ownership interests; (d) engineering price movements and trading volume in the stocks; and (e) unauthorized purchases of stock in accounts of unwitting investors.

II. The CodeSmart Manipulation Scheme

In early May 2013, Discala and his co-conspirators engineered a reverse merger of CodeSmart, a private company, with a shell public company. After gaining control of CodeSmart’s three million unrestricted shares, Discala and his co-conspirators, on two occasions, fraudulently inflated CodeSmart’s share price and trading volume and then sold the unrestricted CodeSmart stock at a profit when the share price reached desirable levels -- a scheme commonly referred to as a “pump and dump.” The first pump and dump occurred between approximately May 13, 2013 and August 21, 2013. During this period, Discala and his co-conspirators manipulated CodeSmart’s stock price by raising it from \$1.77 to a high of \$6.94, before causing it to drop to \$2.19. The second pump and dump occurred between approximately August 21, 2013 and September 20, 2013. During this period, Discala and his co-conspirators manipulated CodeSmart’s stock price by raising it from \$2.19 to a high of \$4.60, before causing it drop to \$2.13.

CodeSmart’s market capitalization at its highest closing price of \$6.94 per share on July 12, 2013 was \$86,347,800. However, that same day, CodeSmart filed with the SEC an amended Form 10-K, signed by Shapiro, in which CodeSmart listed only \$6,000 in total assets, \$7,600 in revenue and a net loss of \$103,141. By December 30, 2013, CodeSmart’s stock was trading at \$0.66 per share, and on July 9, 2014, CodeSmart’s stock closed at \$0.01 per share. On one occasion, Discala boasted that his manipulation of CodeSmart’s stock “should be in the hall of shame.”

To successfully orchestrate the two pumps and dumps, Discala and his co-conspirators coordinated their trading activity with the issuance of company press releases and public filings with the SEC, a number of which contained false and misleading information. Shapiro played a leading role in disseminating such information to the public. During the pump phase of the first pump and dump, CodeSmart issued a press release which stated that it was “the exclusive strategic partner” to provide medical coding and consulting services to the State University of New York at Binghamton. Contrary to this representation, CodeSmart was not the “exclusive strategic partner” for ICD-10 education courses at Binghamton University -- the university also offered courses through other providers and had no plans to exclusively market CodeSmart University to its students.

Similarly, during the pump phase of the second pump and dump, CodeSmart filed with the SEC a Form 8-K, signed by Shapiro, in which CodeSmart announced that Shapiro, its Chief Executive Officer, had purchased 25,000 shares of the company’s stock from the public market at the market value of \$3.21 per share for a cost of \$80,250. In this SEC filing, Shapiro extolled his purchase of CodeSmart stock, stating that it was “symbolic of [his] confidence in the Company and its mission.” In reality, Shapiro did not actually pay for the 25,000 CodeSmart shares purchased in his brokerage account -- the same day he paid \$81,278 from his personal bank account to his brokerage firm for the 25,000 shares, Discala transferred \$81,278 to Shapiro’s personal bank account.

Shapiro’s role in this scheme is further illustrated by his fluctuating revenue forecasts in SEC filings. After estimating \$10 million in revenue over the next twelve months during the first pump, approximately one month later, on August 19, 2013, Shapiro stated that CodeSmart did not have sufficient funds and “may need to curtail or cease [its] operations” until it obtained sufficient funds. As the second pump began, a mere seven days later, Shapiro announced, “If we continue on the track we are on, I believe we will achieve our revenue and profit goals that were previously disclosed for 2013 and beyond.”

Discala and his co-conspirators profited by selling CodeSmart stock, issued to them at pennies, to investment adviser representative Bell’s clients and broker Josephberg’s customers. On some occasions, the CodeSmart shares were sold to Bell’s clients and Josephberg’s customers without their clients’ and customers’ knowledge and consent. Additionally, Bell and Josephberg were selling CodeSmart shares in their personal trading accounts at the same time that they were purchasing CodeSmart stock in their clients’ and customers’ accounts. During the first pump and dump, Discala and his co-conspirators sold approximately 800,000 shares of CodeSmart in their personal accounts while Bell and Josephberg purchased virtually the identical amount in their clients’ and customers’ accounts.

III. The Cubed Manipulation Scheme

In March 2014, Discala and his co-conspirators took Cubed public through an asset purchase agreement. On April 22, 2014, Cubed's stock began trading in earnest. Between April 22, 2014 and April 30, 2014, Discala and his co-conspirators concocted trading volume in this stock by purchasing more than 50% of the total number of Cubed shares purchased during this period.

Between May 2, 2014 and June 29, 2014, law enforcement authorities conducted a judicially-authorized wiretap of Discala's cellular telephone (the "Discala Wiretap"). The Discala Wiretap revealed that Discala, Wexler, Bell, Josephberg, Cane and Azrak, together with others, fraudulently manipulated Cubed's stock by artificially controlling the price and volume of that stock through, among other things, wash trades and match trades.² Rather than generating significant market interest and causing a quick pump and dump that would elicit regulators' scrutiny this time, the defendants gradually increased the price of Cubed's stock to give it the appearance of a legitimate company with genuine and steady market demand for the security. For example, on May 6, 2014, while Cubed was in a period of gradual increase from \$5.20 on April 22, 2014 to \$5.42 on May 22, 2014, Discala sent a text message to Josephberg stating, "Go 531. Please." That day, Cubed's stock closed at \$5.32 per share.

The defendants used an escrow account maintained by Cane to successfully control the price and volume of Cubed's stock. For example, on May 20, 2014, during a telephone call between Discala and Azrak, Discala emphasized his control over Cubed's share price through the use of the escrow account, stating, "I'm the [expletive] brake and the gas, [expletive]. If I take my foot off the brake it's 55 [dollars] tomorrow (laughter)."

On June 23, 2014, Cubed reached its highest closing price of \$6.75 per share, resulting in a market capitalization of approximately \$200 million. Previously, however, Cubed had filed with the SEC a Form 10-Q and reported less than \$1,500 in cash, zero revenue, negative stockholders' equity, a net loss of \$15,000 and accrued professional fees of \$131,824.

IV. The StarStream and Staffing Group Manipulation Schemes

In addition to the CodeSmart and Cubed stocks, Discala and his co-conspirators were simultaneously fraudulently manipulating StarStream's and Staffing Group's stocks by artificially controlling the price and volume of the stocks through the use of, among other things, text messages and telephone calls. Below are examples of text messages intercepted on the Discala Wiretap.

A. StarStream Manipulation

On May 7, 2014, Wexler sent a text message to Discala, stating, "We may need to buy SSET at close. I think EJA has some \$. Got get it to 15 cents. LOL what a joke." That day, StarStream's stock price closed at \$0.30 on 41,100 trading volume, a significant decrease from the previous day's closing price of \$0.48 on 16,200 trading volume. The following day, on May 8, 2014, StarStream's stock price closed at \$0.15 per share, exactly the price proposed by Wexler. Similarly, on May 13, 2014, before trading commenced, Discala sent a text message to Bell, stating, "We got good stuff going. Sset. Should be over a buck today." That day, StarStream's stock price, which opened at \$0.35 per share, reached an intraday high of \$1.05 per share, before closing at \$0.80 per share.

B. Staffing Group Manipulation

On May 7, 2014, Bell sent a text message to Discala, stating, "TSGL is tanking. We still good?" In response, Discala stated, "Yes. Buy all u can at 20 or better. We're cleaning it up." That day, Staffing Group's stock price closed at \$0.25 on 178,300 trading volume, a significant decrease from the previous day's closing price of \$0.36 on no trading volume. Similarly, on May 30, 2014, Discala sent a text message to Wexler, stating, "Buy 5k more ts [TSGL] market im gonna get this thing flying." That day, Staffing Group's stock price closed at \$0.42 per share on 187,300 trading volume, which was almost double the closing price of \$0.23 on 6,000 trading volume on the previous day.

The government's case is being prosecuted by Assistant United States Attorneys Winston M. Paes, Walter M. Norkin, Shannon C. Jones and Claire Kedeshian.

Today's announcement is part of efforts underway by President Obama's Financial Fraud Enforcement Task Force (FFETF) which was created in November 2009 to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. With more than 20 federal agencies, 94 U.S. attorneys' offices, and state and local partners, it is the broadest coalition of law enforcement, investigatory, and regulatory agencies ever assembled to combat fraud. Since its formation, the task force has made great strides in facilitating increased investigation and prosecution of financial crimes; enhancing coordination and cooperation among federal, state, and local authorities; addressing discrimination in the lending and financial markets; and conducting outreach to the public, victims, financial institutions and other organizations. Over the past three fiscal years, the Justice Department has filed more than 10,000 financial fraud cases against nearly 15,000 defendants including more than 2,900 mortgage fraud defendants. For more information on the task force, visit www.stopfraud.gov.

The Defendants:

ABRAXAS J. DISCALA, also known as "AJ Discala"

Age: 43

Residence: Norwalk, Connecticut

MARC WEXLER

Age: 52

Residence: Colts Neck, New Jersey

IRA SHAPIRO

Age: 53

Residence: Congers, New York

MATTHEW BELL

Age: 47

Residence: Boerne, Texas

CRAIG JOSEPHBERG

Age: 41

Residence: New York, New York

KYLEEN CANE

Age: 59

Residence: Las Vegas, Nevada

VICTOR AZRAK

Age: 32

Residence: Brooklyn, New York

E.D.N.Y. Docket No. 14-CR-399

1 The charges announced today are merely allegations, and the defendants are presumed innocent unless and until proven guilty.

2 Wash trades are purchases and sales of securities that match each other in price, volume and time of execution, and involve no change in beneficial ownership. For example, a wash trade occurs when Investor A buys 100 shares at \$5.00 of Company A through Broker A while simultaneously selling 100 shares at \$5.00 of Company A through Broker B. Match trades are similar to wash trades but involve a related third person or party who places one side of the trade. For example, a match trade occurs when Investor A buys 100 shares at \$5.00 of Company A through a broker, while Investor B, who coordinates with Investor A, simultaneously sells 100 shares at \$5.00 of Company A through a broker. Both wash trades and match trades are used to create the appearance that the stock price rose as a result of genuine market demand for the securities.

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Component

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July 14, 2023

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