

Press Release

SEC Obtains Bars and Suspensions Against Individuals and Accounting Firm in Shell Factory Scheme

FOR IMMEDIATE RELEASE

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Washington D.C., Feb. 16, 2018 — The Securities and Exchange Commission today announced charges against three Israeli residents, a Washington, D.C. attorney, and an Israeli auditor and his Maryland-based accounting firm for their roles in a fraudulent scheme in the creation of numerous public shell companies. Under the terms of their settlements with the SEC, the three Israeli residents will be subject to penny stock bars and the attorney and auditor will be prohibited from appearing and practicing before the Commission.

According to a complaint filed by the SEC in federal district court for the Eastern District of New York, Sharone Perlstein, Aric Swartz, and Hadas Yaron created at least 15 shell companies by filing false and misleading registration statements and periodic reports with the SEC, creating phony business plans, and appointing nominal officers and directors, who also acted as straw-man shareholders for the shell companies. The defendants also conducted putative initial public offerings of certain shell companies. In reality, the defendants continued to control the companies' shares and the defendants subsequently sold certain shell companies at a profit of more than \$1.8 million.

The SEC also filed complaints in federal district court for the District of Columbia against gatekeepers who provided substantial assistance in the fraudulent scheme. According to the SEC's complaint against Jonathan Strum, a Washington, D.C.-based attorney, he assisted in drafting false and misleading registration statements and periodic reports and signed fraudulent opinion letters. In its complaint against Alan Weinberg, CPA, an Israeli resident, and his Baltimore-based accounting firm Weinberg & Baer LLC, the SEC alleges that they issued misleading audit reports for at least seven of the shell companies. Despite numerous audit failures and red flags, Weinberg and his firm issued audit reports falsely asserting that the audits had been performed in accordance with the auditing standards promulgated by the Public Company Accounting Oversight Board.

The SEC's complaints charge Perlstein, Swartz, and Yaron with violating Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5; Strum, Weinberg, and Weinberg & Baer with aiding and abetting these violations; Weinberg and Weinberg & Baer with violating Exchange Act Section 10A(a)(2); and Weinberg & Baer with violating Rule 2-02(b)(1) of Regulation S-X.

"This matter underscores the SEC's ongoing determination to protect investors from fraud and abuse, regardless of the location of the violators, and to hold accountable gatekeepers who facilitate fraud and fail to honestly discharge their duties," said Antonia Chion, Associate Director of the SEC's Enforcement Division.

"The law requires truthful disclosures about a company and its business operations to protect investors," said Marc P. Berger, Director of the SEC's New York Regional Office. "Here, we worked closely with foreign authorities to expose how the defendants spun up sham business plans, inserted placeholder shareholders, and with the assistance of gatekeepers filed false documents to reap over \$1.8 million from companies that sold as worthless shells."

To settle the SEC's charges, the defendants agreed, without admitting or denying the allegations, to the entry of permanent injunctions as well as disgorgement and prejudgment interest totaling \$1,656,121.18 for Perlstein; \$307,510.15 for Swartz; \$106,146.64 for Yaron; \$62,899.82 for Weinberg and Weinberg & Baer,

jointly and severally; and \$33,610.89 for Strum. Perlstein, Swartz, and Yaron have also agreed to the entry of penny stock bars. Subject to court approval of the settlements, Weinberg and Weinberg & Baer have also consented to be suspended from appearing and practicing before the SEC as accountants, and Swartz and Strum have consented to the entry of orders suspending them from appearing and practicing before the SEC as attorneys.

The SEC also instituted settled administrative proceedings against Simcha Baer, a Maryland-based accountant. According to the SEC's order, Baer failed to properly perform and document various engagement quality reviews for audits and interim reviews, and repeatedly back-dated and falsified documentation subsequently produced to SEC staff. The SEC's order finds that Baer engaged in improper professional conduct pursuant to Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the SEC Rules of Practice. Without admitting or denying the findings of the SEC's order, Baer consented to be permanently barred from appearing and practicing before the SEC as an accountant.

On Nov. 4, 2016, the [SEC suspended trading in the securities of one of the Perlstein Group's shell companies](#) based on fraudulent statements contained in the company's public disclosures. On April 10, 2017, the [SEC suspended the registration statements](#) of four of the shell companies.

The investigation was conducted in the SEC's New York Regional Office by Daphne Downes, Joseph Darragh, Peter Pizzani, and Kristine Zaleskas and supervised by Michael D. Paley of the Microcap Fraud Task Force and Sanjay Wadhwa, and in Washington, D.C. by Greg Hillson and Jeffrey Anderson and supervised by Peter Rosario, Yuri B. Zelinsky, and Antonia Chion. Preethi Krishnamurthy and Daniel Maher provided litigation counsel. The SEC appreciates the assistance of the Israel Securities Authority, the Financial and Capital Market Commission of the Republic of Latvia, the British Columbia Securities Commission, the Internal Revenue Service Criminal Investigation Division, the Federal Bureau of Investigation, the Office of the United States Attorney for the Eastern District of New York, the Financial Conduct Authority of the United Kingdom, and the Financial Industry Regulatory Authority.

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Related Materials

- [SEC Complaint - Perlstein et al](#)
- [SEC Complaint - Strum](#)
- [SEC Complaint - Weinberg](#)
- [SEC Order - Baer](#)