



Department
of Commerce

NEWS RELEASE

John R. Kasich, Governor

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Department of Commerce**

FOR IMMEDIATE RELEASE
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**OHIO DIVISION OF SECURITIES ISSUES FEBRUARY 2013
UPDATE ON CRIMINAL CASES**

(Columbus) -- The Ohio Department of Commerce Division of Securities today released the attached February 2013 update on criminal cases.

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****INFORMATION RELEASE****

February 1, 2013 – February 28, 2013

CRIMINAL CASES

Jonathan D. Davey

On February 8, 2013, certified public accountant Jonathan D. Davey, 48, of Newark, Ohio, was convicted on four criminal charges relating to an investment fraud conspiracy. He was convicted in U.S. District Court in Charlotte, North Carolina.

The federal indictment, returned in February 2012, charged Davey with serving as the “administrator” for numerous hedge funds for the Black Diamond Ponzi Scheme. He was also charged with soliciting over \$11 million from victims with his own hedge fund, “Divine Circulation Services”, and with tax evasion. The charges arise from the Black Diamond investigation, which has brought criminal charges against 11 individuals and CommunityOne Bank, relating to conduct in 2007 that deprived over 400 victims of more than \$40 million.

According to evidence presented at trial, Davey lied to collect over \$11 million from victims mainly in North Carolina, Virginia, and Ohio for his hedge fund by claiming, among other things, that he had done due diligence on Black Diamond and was operating a legitimate hedge fund with significant safeguards, when, in reality, neither claim was true. Then, as Black Diamond began to collapse, Davey and other hedge fund managers started a derivative Ponzi scheme using a so-called “cash account” that Davey controlled. Davey and his co-conspirators collected over \$5 million from new victim investors for the cash account and used the new victim money to make Ponzi payments to old investors and themselves. The evidence at trial showed that, as administrator for the scheme, Davey controlled most funds and wires for the scheme and published a website for victims that reflected false returns. At trial, the government showed that by the end of the scheme, the website reflected over \$120 million in supposed value for victim-accounts when Davey and the hedge fund managers in reality had less than \$1 million total in their accounts.

According to evidence presented at trial, Davey used an elaborate network of shell companies to evade taxes and commit money laundering with the proceeds of the Ponzi scheme. In particular, Davey used an offshore shell company in Belize to funnel money to build a mansion in Ohio, creating a sham “loan” by pretending that investors had “loaned” investment money to the Belizean shell company that was then used to build Davey’s personal mansion.

On July 15, 2010, the Division of Securities issued Order Number 10-058 against Jonathan D. Davey and Divine Stewardship, LLC providing Notice of Intent to Suspend or Revoke the licenses of Davey and Divine Stewardship, LLC. Davey withdrew both Ohio licenses and a Termination of Order was subsequently issued. The Division cooperated with the federal investigation and provided testimony at the criminal trial in this case.

Jason E. Schwartz

On February 26, Jason E. Schwartz of North Baltimore, Ohio entered a no contest plea, in Wood County Common Pleas Court, to two counts of securities fraud.

Schwartz was the owner of TLC Genetics, LLC, an Ohio company located in Bucyrus, Ohio that marketed itself as “a full service supplier of semen for the artificial insemination of pure breed and crossbreed swine.”

(more)

In raising \$120,000 from two investors, Schwartz failed to disclose to the investors that he was under federal investigation for mortgage fraud, for which he was later convicted and sentenced to five months in prison. He also failed to disclose to investors that he had previously filed bankruptcy on a company that owed more than \$600,000 in federal and state taxes.

After receiving the investor funds, Schwartz immediately used the funds to pay personal bills, mortgage payments, and his wife's credit card bill.

Following a criminal referral by the Ohio Department of Commerce Division of Securities, the case was prosecuted by the office of Wood County Prosecutor Paul Dobson. Assistant Prosecutor Aaron Lindsey is prosecuting the case.

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Before investing, the Department of Commerce's Division of Securities encourages Ohioans to call the Division's Investor Protection Hotline toll free at 1-877-683-7841 to ask:

- Are the brokerage firm and salesperson licensed to sell securities in Ohio?
- Have any enforcement actions been taken against them?
- Has the security been properly registered with the Division of Securities?