

RE: Weiss, Sholam

PART A. THE OFFENSE (continued)

- by cash/securities provided by NHLIC (the *"Nulenda Credit Line"*); the proposal and transaction was concealed from LifeCo, the NHLIC CFO and the Regulators. In or about September 1992, Smythe falsely, fraudulently and under false pretenses, caused \$20,000,000 of NHLIC funds to be transferred to a Blutrigh escrow account, such funds were to be held by Blutrigh in escrow, in an interest bearing account, until transferred to an investment account in NHLIC's name (the *"Future Diversified Escrow Funds"*). From on or about September 11, 1992, through May 19, 1993, Smythe, Blutrigh, and Pfeffer caused the \$20,000,000 *Future Diversified Escrow Funds* to be transferred to Nulenda and pledged as collateral on the *Nulenda Credit Line*, which was ultimately drawn down to the full extent of \$20,000,000.
16. From September 1992 through June 1993, Smythe, Blutrigh, and Pfeffer caused the \$35,000,000 described above, plus an additional \$10,000,000 of NHLIC funds, to be used to buy securities which were then substituted as the collateral on the *LPDA* and *Nulenda Credit Lines* (the *"LPDA/Nulenda Securities"*). On or about May 10, 1993, SCB advised Pfeffer and Blutrigh that it would not renew either the *LPDA Credit Line* or the *Nulenda Credit Line*. In June 1993, SCB sold the NHLIC securities pledged on the *LPDA Credit Line* and *Nulenda Credit Line* to pay off those debts. The fact that the securities were pledged and sold was concealed from NHLIC. The sale of the NHLIC securities created what Smythe, Blutrigh and Pfeffer generally referred to as the *"\$35,000,000 Hole"*, because prior to the end of 1993 the whereabouts and disposition of these assets would have to be explained to LifeCo, NHLIC, independent auditors and the Regulators. From June 1993 through August 1993, Blutrigh, allegedly acting as attorney for NHLIC, directed and caused SCB to sell all securities not sold previously to satisfy the *LPDA* and *Nulenda* debts for approximately \$12,572,184.
17. From in or about August 1993, through in or about December 1993, WEISS, Smythe, Blutrigh, and Pfeffer concocted a plan to divert NHLIC funds and to use those funds to acquire discounted mortgages, in order to conceal the *\$35,000,000 Hole* from NHLIC. WEISS, SCHNEIDERMAN, SOUTH STAR, and others falsely, fraudulently, and through a variety of false pretenses and representations, caused NHLIC funds in the amount of \$89,157,482 to be transferred to SCHNEIDERMAN and F&H to execute the plan. On or about August 19, 1993, WEISS, HERMAN, and STARR incorporated SOUTH STAR. WEISS intended to use SOUTH STAR as a vehicle to execute the mortgage acquisition scheme. WEISS recruited SCHNEIDERMAN, who was WEISS' attorney and colleague, to act as a disbursing agent for SOUTH STAR, recruited STARR to act as the "front" for SOUTH STAR, and, further, recruited F&H to

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act as a disbursing agent, as well as a purchasing agent, during the execution of the mortgage acquisition scheme.

18. Beginning in the summer of 1993, and continuing up to December 21, 1993, the NHLIC CFO was advised that negotiations were ongoing for a Reinsurance Deal, although in truth and in fact, by at least November 22, 1993, those negotiations had failed and there was no realistic expectation that the *Reinsurance Deal* would be executed. Beginning in August 1993, and continuing until December 21, 1993, Smythe advised NHLIC and the NHLIC CFO that substantial cash assets of NHLIC were required to be accumulated to be used to execute the *Reinsurance Deal*, and, further, falsely and fraudulently advised NHLIC and its CFO that SCHNEIDERMAN and Schick were attorneys designated to hold the funds in escrow for the *Reinsurance Deal*. In order to cover the *\$35,000,000 Hole*, in or about October 1993, WEISS and SCHNEIDERMAN caused Pfeffer to falsely and fraudulently advise NHLIC that approximately \$48,152,012 had been transferred to SCHNEIDERMAN from SCB, to be held in escrow for the *Reinsurance Deal* (such funds alleged to be proceeds of the sale of the *LPDA/Nulenda Securities*), whereas, in truth and in fact, only \$12,572,184 was transferred to SCHNEIDERMAN, such funds constituting the proceeds remaining from the sale of the *LPDA/Nulenda Securities* after the pay-off of the *LPDA* and *Nulenda Credit Lines*. From August 31, 1993 to December 23, 1993, WEISS, SCHNEIDERMAN, SOUTH STAR and others fraudulently caused NHLIC to transfer \$70,185,300 to SCHNEIDERMAN and to F&H, based on a variety of false and fraudulent representations, including that they were to be used as part of investment transactions and that they were to be held in escrow for the *Reinsurance Deal*.

19. On or about November 11, 1993, in order to perpetuate the artifice that SCHNEIDERMAN and F&H held the *Attorney Escrow (South Star) Fraud Proceeds* in escrow for NHLIC, and to cover the *\$35,000,000 Hole*, SCHNEIDERMAN issued to NHLIC an interest check in the amount of \$132,683.03, which purported to represent interest on the \$92,000,000 allegedly received by SCHNEIDERMAN, whereas, in truth and in fact, as of that date SCHNEIDERMAN had received only \$46,816,152 from NHLIC. In or about November 1993 and January 1994, WEISS, SCHNEIDERMAN, and others submitted, and caused to be submitted, a false and fraudulent escrow statement to NHLIC which represented that SCHNEIDERMAN held \$92,000,000 in cash for NHLIC as of September 30, 1993, whereas, in truth and in fact, the \$46,816,152 she actually had received had been diverted to SOUTH STAR and spent, and SCHNEIDERMAN had less than \$300,000 remaining on hand.