United States Attorney
District of New Jersey

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COMPUTER SPECIALIST PLEADS GUILTY TO SECURITIES FRAUD COMMITTED THROUGH HACKING, BOTNETS, SPAM AND MARKET MANIPULATION

TRENTON, N.J. – A computer specialist pleaded guilty today to participating in a conspiracy to artificially inflate stock in a scheme that included computer hackers creating botnets and taking over brokerage accounts in addition to more traditional market manipulation, United States Attorney Paul J. Fishman announced.

James Bragg, 41, of Chandler, Ariz., pleaded guilty before United States District Judge Joel A. Pisano to a count of conspiracy to commit securities fraud and fraud in connection with electronic mail – in this case, distributing falsified information in mass e-mails known as "spam." Bragg waived his right to be indicted by a federal grand jury and was charged in an Information filed today in Trenton federal court.

U.S. Attorney Fishman stated: "Bragg admitted today that he participated in a mass e-mail campaign in support of an illegal, get-rich-quick stock manipulation scam. The conspirators may have updated the fraud with technology, but strip away the army of computers and this is a classic pump and dump scheme. As criminals increasingly use new technology to commit crimes, federal law enforcement will continue to rely on equally sophisticated methods to track and thwart evolving schemes."

"Securities fraud committed through computer intrusions is an imminent and growing threat," said Michael B. Ward, Special Agent In Charge of the FBI's Newark Field Office. "Every time we make an arrest in a case like this and disrupt or dismantle such schemes, it levels the playing field for honest investors and restores faith in our markets. I thank the Securities Exchange Commission and the U.S. Attorney's Office on our collaborative efforts to confront this threat."

According to the Information to which Bragg pleaded guilty and statements made in court:

Bragg agreed with others to engage in a scheme to manipulate the price and volume of particular stocks in order to later sell them at an artificially inflated price, a practice known as a "pump and dump" scheme. The scheme began as early as November 2007 and continued through February 2009. Bragg was hired by an individual referred to in the Information as "C.R." to promote certain stocks, including stocks with ticker symbols RSUV and VSHE (the "Manipulated Stocks"). Bragg engaged in a mass e-mail distribution campaign to promote the

stocks, falsifying information so that the e-mails could not be traced to him or C.R. and altering the contents of the e-mail to avoid spam filters.

To further the efficacy of the stock promotions, or "pumps," Bragg also hired hackers and spammers, including an individual in Russia referred to in the Information as "B.T." The hackers distributed computer viruses to infect computers around the world and create a virtual army of computers, or "botnet." The hackers then caused the botnets to distribute spam to promote the Manipulated Stocks. Some of the targeted victim-investors were residents of New Jersey.

In addition to relying on unsuspecting investors to buy into the spam promotions, the hackers also hacked into the brokerage accounts of third parties, liquidated the stocks in those accounts, and then used those accounts to purchase shares of the Manipulated Stocks This created trading activity in the Manipulated Stocks and increased the volume of shares being traded, further creating an impression that the Manipulated Stocks were worth purchasing.

Bragg also agreed with C.R. to trade the Manipulated Stocks between them, creating the impression that the stocks were active. In some instances this was done prior to the spam campaigns so that recipients of the spam would perceive active trading in the promoted stocks.

A stock promoter who was also part of the conspiracy falsified documents submitted to attorneys in order to obtain opinion letters to secure millions of freely-trading shares in those stocks. Those letters certified that trading restrictions on shares of the Manipulated Stocks could be lifted because certain conditions set forth in securities regulations were met.

The conspiracy charge to which Bragg pleaded guilty carries a maximum potential penalty of five years in prison and a $250,000 fine.

U.S. Attorney Fishman credited special agents of the FBI, under the direction of Special Agent in Charge Michael B. Ward, with the investigation which led to today's guilty plea. He also thanked the U.S. Securities and Exchange Commission's Division of Enforcement, and added that the investigation is ongoing.

The government is represented by Assistant U.S. Attorneys Christopher Kelly and Erez Liebermann of the U.S. Attorney's Office Economic Crimes Unit in Newark.

This case was brought in coordination with President Barack Obama's Financial Fraud Enforcement Task Force. President Obama established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated, and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and

with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

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Defense counsel: Robert Morgan, Esq., Detroit, Mich.