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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

PRINCETON ECONOMICS
INTERNATIONAL LTD., PRINCETON
GLOBAL MANAGEMENT LTD., AND
MARTIN A. ARMSTRONG,

Defendants.

99 Civ. _____

COMPLAINT
AND
JURY DEMAND

Plaintiff Securities and Exchange Commission (the "Commission"), for its Complaint against Princeton Economics International Ltd. ("Princeton Economics"), Princeton Global Management Ltd. ("Princeton Global"), and Martin A. Armstrong ("Armstrong") (the "Defendants"), alleges that:

NATURE OF THE ACTION

1. The Commission brings this action to stop a massive fraud being perpetrated by the Defendants, who have raised billions of dollars since at least 1996 by fraudulently offering and selling promissory notes issued by subsidiaries of Princeton Economics (the "Princeton

Issuers”) to Japanese corporations. In offering and selling those notes, the Defendants represented that the Princeton Issuers would deposit the proceeds of the note sales into segregated accounts, and use those proceeds to purchase conservative investments, such as securities issued by the United States Treasury. In fact, the Defendants have lost hundreds of millions of dollars through risky currency and commodities trading, have commingled investor funds, used investor funds to conceal trading losses, and arranged for the mailing of letters that materially overstate the net asset value of the accounts purportedly underlying investors’ notes. As a result of the Defendants’ conduct, investor losses approach or exceed \$1 billion. In the wake of the discovery of the fraud, Armstrong has transferred millions of dollars from Princeton Global accounts into foreign bank accounts he controls.

2. Unless they are temporarily restrained and preliminarily and permanently enjoined, the Defendants will continue to engage in the transactions, acts, practices and courses of business alleged herein, and in transactions, acts, practices, and courses of business of a similar type and object, including the transfer of funds to foreign bank accounts.

VIOLATIONS

3. Princeton Economics, Princeton Global, and Armstrong, directly or indirectly, singly or in concert, have engaged and, unless enjoined, will continue to engage in transactions, acts, practices or courses of business that constitute, and would constitute, violations of Section 17(a) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C. § 77q(a); and Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

JURISDICTION

4. The Commission brings this action under Section 20(b) of the Securities Act, 15 U.S.C. § 77t(b), and Section 21(d) of the Exchange Act, 15 U.S.C. § 78(u)(d), seeking to temporarily restrain, and preliminarily and permanently enjoin the Defendants from engaging in the wrongful conduct alleged in this Complaint. The Commission also seeks a final judgment ordering the Defendants to disgorge any ill-gotten gains and to pay prejudgment interest thereon, ordering the Defendants to pay civil money penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3). The Commission also seeks other equitable relief during the pendency of this action, including an order: (a) freezing the Defendants' assets; (b) directing each of the Defendants to provide an accounting; (c) appointing a receiver for Princeton Economics and Princeton Global; (d) requiring defendants to repatriate off-shore funds; and (e) providing for expedited discovery and prohibiting the destruction of documents.

5. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), and Sections 21(e) and 27 of the Exchange Act, 15 U.S.C. §§ 77u(e) and 78aa. Defendants, directly and indirectly, singly and in concert, have made use of the means and instrumentalities of transportation or communication in, or the instrumentalities of, interstate commerce, or of the mails in connection with the transactions, acts, practices and courses of business alleged in this Complaint. Certain of the transactions, acts, practices and courses of business occurred within the Southern District of New York, including the purchase of investments through a registered broker-dealer based in this district, and the mailing of letters to investors that materially overstated the value of their accounts.

DEFENDANTS

6. **MARTIN A. ARMSTRONG**, age 50, is a resident of Maple Shade, New Jersey. He is the founder and chairman of Princeton Economics, and controls all of Princeton Economics' subsidiaries, through his ownership of Princeton Economics. Armstrong claims to be a top economist, market expert, and commodities trader and has been referred to in a news article as "the biggest individual silver trader on the New York Mercantile Exchange."

7. **PRINCETON ECONOMICS INTERNATIONAL LTD.**, headquartered in Princeton, New Jersey, is a financial services company organized under the laws of the Turks and Caicos Islands, British West Indies. Princeton Economics, which is owned and controlled by Armstrong, owns and controls an array of other off-shore corporations, including Princeton Global, and all of the Princeton Issuers.

8. **PRINCETON GLOBAL MANAGEMENT LTD.**, controlled by Armstrong, is an umbrella entity which received the proceeds of the notes issued by the Princeton Issuers.

OTHER RELEVANT ENTITIES

9. **CRESVALE INTERNATIONAL LIMITED TOKYO BRANCH** ("Cresvale Tokyo") is a wholly owned indirect subsidiary of Cresvale Far East Limited, a United Kingdom holding company which is, in turn, wholly owned and controlled by Princeton Economics. Cresvale Tokyo marketed the Princeton Issuers' notes to Japanese investors.

10. **CRESVALE INTERNATIONAL (US) LLC** ("Cresvale US"), a wholly owned indirect subsidiary of Cresvale Far East Limited, is a registered broker-dealer headquartered in New York City. Cresvale US holds various trading and brokerage accounts in the names of the Defendants.

11. **REPUBLIC NEW YORK SECURITIES CORP.** (“Republic”) is a registered broker-dealer headquartered in New York. Republic is a subsidiary of Republic New York Corp., a holding company which also owns Republic National Bank of New York. Republic held various trading and brokerage accounts, and was the custodian of funds, for the Princeton Issuers.

FACTS

Defendants Offer and Sell Notes

12. Since at least 1996, Armstrong, acting through companies he controls, including Princeton Economics and Princeton Global, induced companies located in Japan to purchase at least \$3 billion in fixed-term promissory notes (the “Princeton Notes”) issued by subsidiaries of Princeton Economics. The Princeton Notes, which generally had maturities of one to two years, were marketed to the Japanese investors by Cresvale Tokyo, a brokerage concern ultimately owned and controlled by Armstrong. Over \$1 billion of these Princeton Notes remain outstanding, held by 80-100 Japanese companies.

13. Defendants offered and sold two types of Princeton Notes: “Variable Redemption Notes” and “Guaranteed Notes.” “Variable Redemption Notes” can be redeemed at maturity for their “net asset value,” and accordingly, their value at maturity depends entirely on the success of the initial funds invested. The “Guaranteed Notes” are redeemed at their face value at the time of maturity. The “Guaranteed Notes” are sold at a substantial discount from face value and also pay a guaranteed rate of interest.

14. Both types of the Princeton Notes were issued by special-purpose entities established by Armstrong in the Turks and Caicos Islands, and owned by Princeton Economics. Princeton Economics acted as an unregistered investment adviser to each of the special-purpose entities

that issued the Princeton Notes and managed the funds derived from the sale of the Princeton Notes.

15. The offering documents for the Princeton Notes, distributed to Japanese investors through Cresvale Tokyo, made various representations regarding the nature and safety of the investment, the track record of investments in Princeton Notes, and the use of the proceeds. In particular, the offering documents represented that the investment program would be conservative, that Princeton Economics and its subsidiaries had been remarkably successful for several years in managing client funds, and that investor funds would be maintained in segregated accounts. These representations were false and misleading.

Investments Were Not Conservative

16. For example, an offering document distributed to investors stated, with respect to the “Variable Redemption Notes,” that “the overriding principle behind Princeton [Economic]’s approach to managing funds for clients is the preservation of client’s capital,” and that Princeton Economics’ “basic approach to fund management and investment can be characterized as extremely conservative.” This offering document states that Princeton Economics will initially invest investors’ funds in AAA-rated government bonds, yielding a 6% return, and that the funds will subsequently be invested “in any major stock, bond, currency or commodity market.”

17. These representations were false and misleading. Armstrong, who directed all trading for Princeton Economics and Princeton Global did not confine the underlying investments to conservative ones. Instead, between November 3, 1997 through August 31, 1999, Armstrong accumulated losses totaling more than \$475 million by employing risky strategies that involved

buying and selling an enormous volume of currencies, options, and other complex instruments in the trading accounts. For example, during this period, Princeton Global suffered net losses of \$295 million by Armstrong's trading the Yen.

Princeton Notes Track Record Was Misstated

18. The offering documents also claim that Princeton Economics has had a "remarkably successful track-record since it commenced its investment activities in 1991." A summary table in the offering document shows an impressive average return on Princeton Notes of 22.25% over a nine-year period. This average return is represented as "net basis after all fees," and was supposedly calculated by dividing the net income for the month by the adjusted net asset value for the month. The track-record table shows net gains of 20.51% for 1998, and a small loss for the first half of 1999 (less than 1%).

19. These representations were false and misleading. During this period, Princeton Global was consistently losing money in commodities trades. Princeton Global has lost hundreds of millions of dollars through trading in the last three years, including \$295 million from the Yen trading alone.

Investor Funds Were Not Maintained In Segregated Accounts

20. The offering documents represented to investors that their invested funds, or securities or other instruments purchased therewith, would be maintained in segregated custodial accounts at Republic. Although investor funds were at one time deposited into separate accounts, at least as early as August 1998, Defendants began to commingle investor funds and, as losses mounted, to transfer funds from one account to another.

21. Investor funds initially were deposited at Republic in separate accounts established for each Princeton Issuer. At that time, trading activity was confined to the separate accounts, with accountability for the losses or gains from the trading. Beginning on August 17, 1998, however, Armstrong converted these separate accounts to a single master account in the name of Princeton Global, with a resulting loss of accountability. In this master account, Armstrong actively traded various commodities, in eight sub-accounts. The master account also has 113 sub-accounts for individual Princeton Issuers.

22. Contrary to the representation that investors' funds would be maintained in segregated accounts, Armstrong treats the master account and all the sub-accounts as a single account. Armstrong entered into a guarantee agreement with Republic on behalf of the Princeton Issuers, which caused the individual Princeton Issuers' sub-accounts to guarantee any losses in the eight trading accounts. With this guarantee in place, Republic permitted Armstrong to accumulate losses in the trading accounts, which showed progressively larger deficits. Beginning in July 1999, Armstrong reduced the deficits in the trading accounts by transferring over \$100 million from the Princeton Issuers' sub-accounts.

23. Over the past year, Armstrong has transferred large amounts of cash from these sub-accounts to the trading accounts, without regard to losses attributable to particular Princeton Issuers. For example, in August 1999, Armstrong directed a transfer of at least \$136 million from ten sub-accounts to cover losses in the trading accounts without any evident regard for the correlation of these losses to the ten sub-accounts, or as a result of any regular allocation of losses to particular accounts.

Defendants Arranged For The Issuance Of Fraudulent Letters To Investors

24. The Japanese investors regularly received letters concerning the status of their accounts (“NAV Letters”), as provided for in the offering documents. While Princeton Global was experiencing massive trading losses, the Defendants concealed those losses from investors by arranging for Republic to issue fraudulent NAV Letters.

25. These NAV Letters overstated the net asset value of the sub-accounts underlying the Princeton Notes. Instead of reporting the actual value and holdings in the sub-accounts, the NAV Letters reported the face amount of the note underlying the original investment plus any accrued interest.

26. The fraudulent NAV letters were prepared by Republic at Armstrong’s direction, using figures provided by Armstrong, or his assistant, rather than the actual account balances.

27. For example, Kissei Pharmaceutical Co. Ltd., of Japan (“Kissei”), a purchaser of “Guaranteed Notes” issued by a Princeton Issuer named Princeton Global Management M-3 Limited (“M-3”) received a fraudulent NAV Letter. Specifically, Kissei received an NAV letter (“Kissei NAV Letter”) stating that the “net asset value” of M-3’s account at Republic as of June 30, 1999, was \$12,787,123.27, and that, “[t]he above funds are held in AAA US Government Securities.” The \$12,787,123.27 amount corresponded to the sum of the face amount of the note underlying Kissei’s original investment plus the accrued interest through June 30, 1999.

28. The Kissei NAV Letter overstates the balance in M-3’s account by more than \$2.2 million. As reflected in a monthly statement from Republic for the M-3 sub-account, the

balance for the M-3 sub-account on June 30, 1999, was only \$10,509,123.27. Further, the M-3 sub-account held cash and did not hold government securities.

29. Similarly, the purchaser of notes issued by a Princeton Issuer named Princeton Global Management K-3 Ltd. ("K-3") received an NAV Letter that materially overstated the value of K-3's account as of March 31, 1998 by more than \$1.6 million. That letter states that the net asset of the K-3 account was \$5,781,011.32. In fact, the net asset value of K-3 account on that date was only \$4,138,140.23.

30. Although there is over \$1 billion of Princeton Notes outstanding, the total value of all accounts at Republic holding funds and assets relating to the sales of the Princeton Notes (i.e. the Princeton Global master account, the trading sub-accounts, and the Princeton Issuer sub-accounts) as of August 31, 1999 was only \$46 million.

CLAIM FOR RELIEF

Violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5

31. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 30 above.

32. The Princeton Notes -- both the "Guaranteed Notes" and the "Variable Redemption Notes" -- are securities as defined by Section 2(1) of the Securities Act, 15 U.S.C. § 77b(1) and Section 3(a)(10) of the Exchange Act, 15 U.S.C. § 78(a)(10).

33. Defendants Princeton Economics, Princeton Global, and Armstrong, directly or indirectly, singly or in concert, by use of the means or instruments of transportation or communication in, or the means or instrumentalities of, interstate commerce, or of the mails, in the offer or sale and in connection with the purchase or sale of securities, knowingly or recklessly, have: (a) employed devices, schemes and artifices to defraud; (b) obtained money or property by means of, and otherwise made untrue statements of material fact, and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, transactions, practices and courses of business which operated or would operate as a fraud or deceit upon the purchasers of securities and upon other persons.

34. As is more fully set forth in Paragraphs 12 through 30 above, in offering and selling the Princeton Notes, Princeton Economics, Princeton Global, and Armstrong, directly or indirectly, made misrepresentations regarding the safety, investment strategy, and performance of the Princeton Notes, as well as misrepresentations with respect to the segregation of funds.

Princeton Economics, Princeton Global, and Armstrong, directly or indirectly, misrepresented the actual value of assets held in the accounts of the Princeton Issuers through the issuance of fraudulent NAV letters.

35. Each of the misrepresentations described in Paragraphs 12 through 30 above was material.

36. Defendants knew, or were reckless in not knowing, that the representations described in Paragraphs 12 through 30 above were false and misleading.

37. By reason of the foregoing, Princeton Economics, Princeton Global, and Armstrong have, directly or indirectly, singly or in concert, violated and, unless preliminarily and permanently enjoined, are reasonably likely in the future to violate Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff respectfully requests that this Court enter a Final Judgment:

1. Temporarily restraining, and preliminarily and permanently enjoining, Princeton Economics, Princeton Global, and Armstrong from violating, directly or indirectly, Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder;
2. Ordering Princeton Economics, Princeton Global, and Armstrong to disgorge any ill-gotten gains and to pay prejudgment interest thereon;
3. Ordering Princeton Economics, Princeton Global, and Armstrong to pay civil money penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d) and Section 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3);
4. Ordering that the assets of Princeton Economics, Princeton Global, and Armstrong be frozen, ordering each of the Defendants to provide an accounting and to repatriate off-shore funds;
5. Ordering the appointment of a receiver for Princeton Economics and Princeton Global;
6. Providing for expedited discovery and prohibiting the destruction of documents; and
7. Granting such further and other relief as the Court may deem just and equitable.


DEMAND FOR JURY TRIAL

Plaintiff, pursuant to Rule 38(b) of the Federal Rules of Civil Procedure, hereby demands
a trial by jury for all issues so triable.

Dated: New York, New York
September 13, 1999

Respectfully Submitted,

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