

46. Despite the intended and stated purpose in the offering documents, Epstein diverted the funds and funneled a substantial amount of the proceeds of the sale of the TFC Bonds to pay TFC's operating expenses.

47. To cover up the fraud, Defendant Epstein directed collateral to be moved from one THRFC Bond Fund to another and falsified collateral records in the periodic reports to investors and SEC filings. Further, Epstein and Hoffenberg created phony receivables, then included those items in reports designed to misrepresent the true financial picture of the THRFC Bond Funds. Despite Defendant Epstein's central role in this now widespread, massive Ponzi scheme, his actions were taken on behalf of TFC – Hoffenberg's company for which Epstein only "consulted".

48. Between July 1990 and May 1992, TFC sold approximately two hundred ten million (\$210,000,000) dollars in TFC Bonds. Like the TFC Promissory Notes, the financial statements provided to potential investors used falsified income and asset figures to conceal TFC's true financial condition.

49. In February 1993, following a lengthy investigation, the Securities and Exchange Commission ("SEC") filed suit against Hoffenberg, TFC, and other TFC officials for, among other things, securities fraud through the circulation of false and misleading financial statements to investors regarding TFC's financial condition.

50. In or around March 1993, TFC filed for Chapter 11 bankruptcy protection, and the Noteholders and Bondholders filed claims with the Bankruptcy Court to support their loss claims.⁵

51. On April 19, 1994, and as a result of the SEC investigation, Hoffenberg was indicted in the Northern District of Illinois on various fraud charges.

⁵ See *In re Towers Financial Corporation, et. al.* Case No. 93-B41558 (PBA) (S.D.N.Y. Dec. 8, 1994).