

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 76396 / November 9, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16949

In the Matter of

SANDIP SHAH,

Respondent.

ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS PURSUANT
TO SECTIONS 15(b) AND 21C OF THE
SECURITIES EXCHANGE ACT OF
1934 AND NOTICE OF HEARING

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Sandip Shah (“Respondent” or “Shah”).

II.

After an investigation, the Division of Enforcement alleges that:

A. RESPONDENT

1. Respondent, age 41, is a resident of Chino, California. He was in the business of promoting penny stocks and assisting public companies in finding sources of funding. Respondent participated in offerings of the common stock of SOHM, Inc. (“SOHM”), Costas, Inc. (“Costas”), and a third company (“Company A”), each of which is a penny stock. During the relevant period from at least March 10, 2011 through at least May 12, 2011, Respondent was a consultant to Company A. On May 8, 2014, Respondent was indicted on nine counts of wire fraud in *U.S. v. Shah*, 14-CR-10135-NMG (D. Mass.). On May 15, 2015, a jury found him guilty of nine counts of wire fraud. On August 25, 2015, he was ordered to forfeit \$40,000 and, on September 11, 2015, was sentenced to 27 months' imprisonment to be followed by 2 years' supervised release, and was ordered to pay a \$9,000 fine.

B. OTHER RELEVANT ENTITIES

1. SOHM, Inc. is a Nevada company with its principal place of business currently in Corona, California. SOHM purports to manufacture and distribute generic pharmaceuticals in emerging markets in Asia, Africa, and Latin America. The common stock of SOHM is publicly quoted on OTC Link under the symbol "SHMN."

2. Costas, Inc. is a Nevada company with its principal place of business currently in Tempe, Arizona. Costas purports to provide digital media consulting and other services in India and the United States. Its securities had been registered with the Commission under Exchange Act Section 12(g), but it filed a Form 15-12G on July 17, 2006 terminating its securities registration. The common stock of Costas is publicly quoted on OTC Link under the symbol "CSSI."

3. Shailesh Shah, age 49, a resident of Chino, California, was the President and Chief Executive Officer ("CEO") of SOHM, a publicly traded company that purported to manufacture and distribute generic pharmaceuticals in emerging markets in Asia, Africa, and Latin America. Shailesh Shah was also the President and CEO of Costas, a publicly traded company that purported to provide digital media consulting and other services. Shailesh Shah was charged by criminal information with two counts each of mail fraud and wire fraud on May 8, 2014 and pleaded guilty to all counts on July 18, 2014 in *U.S. v. Shah*, 14-CR-10136-RGS (D. Mass.). On June 23, 2015, Shailesh Shah was sentenced to 18 months' probation and, on June 25, 2015, was ordered to forfeit \$37,500.

C. KICKBACK SCHEMES

1. The "Company A" Scheme

a. These proceedings arise out of a fraudulent scheme in which insiders of publicly-traded penny stock companies paid secret kickbacks to a purported corrupt hedge fund manager, who was in fact an undercover agent with the Federal Bureau of Investigation ("Fund Manager"), in exchange for the Fund Manager's purchase of restricted stock of the penny stock companies on behalf of his purported hedge fund ("the Fund"), which did not actually exist.

b. On or about March 10, 2011, an individual who was serving as a cooperating witness for the Federal Bureau of Investigation and was in the business of promoting penny stocks and assisting public companies in finding sources of funding ("CW") introduced RT, the President and CEO of Company A, a company which purported to design military defense technology, and Sandip Shah ("Shah"), a consultant to Company A, to the Fund Manager ("Company A Meeting").

c. At the Company A Meeting, the Fund Manager informed Shah and RT that he was a manager of an investment fund and was willing to invest money

in companies in return for a fifty percent kickback that would go to the Fund Manager. Shah and RT were told that the Fund was not to be informed of the kickback payments. The Fund Manager also discussed the mechanics of the funding, informing Shah and RT that he was willing to invest up to \$5 million of the Fund's money in Company A, but that, in order to avoid detection, he would invest the money over time, in "tranches" of increasing amounts. The Fund Manager further explained that, after Company A received the Fund's money, fifty percent of the money would be kicked back by Company A to a nominee company controlled by the Fund Manager and about which the Fund had no knowledge. Finally, the Fund Manager explained that, in order to conceal the kickback payments, the nominee company would issue a series of invoices to Company A for services that were never rendered. After the Fund Manager had explained the scheme, RT agreed to enter into the kickback arrangement.

d. After the Company A Meeting, and as Shah was aware, RT prepared the documents related to the scheme, including a consulting agreement with one of the Fund Manager's nominee companies, and sent the documents to the Fund Manager via e-mail. Following the Company A Meeting, as Shah was aware, the Fund Manager invested a total of \$80,000 of the Fund's money in Company A in three wire transfer installments of \$15,000, \$25,000, and \$40,000. As Shah was aware, the Fund Manager received a total of \$40,000 in kickbacks from Company A and RT in three wire transfer kickback payments of \$7,500, \$12,500, and \$20,000.

e. Specifically, on or about March 14, 2011, \$15,000 was sent by wire transfer from a bank account maintained in Boston, Massachusetts purportedly belonging to the Fund to a corporate bank account of Company A. The wire transfer represented the first tranche of funding for Company A.

f. On or about March 15, 2011, RT caused \$7,500 to be sent by wire transfer from a corporate bank account of Company A to a bank account in Boston, Massachusetts, purportedly belonging to one of the Fund Manager's nominee companies. This wire transfer represented the kickback to the Fund Manager from the first tranche of funding for Company A.

g. On or about April 4, 2011, \$25,000 was sent by wire transfer from a bank account maintained in Boston, Massachusetts purportedly belonging to the Fund to a corporate bank account of Company A. The wire transfer represented the second tranche of funding for Company A.

h. On or about April 6, 2011, RT caused \$12,500 to be sent by wire transfer from a corporate bank account of Company A to a bank account in Boston, Massachusetts purportedly belonging to one of the Fund Manager's nominee companies. This wire transfer represented the kickback to the Fund Manager from the second tranche of funding for Company A.

i. On or about April 29, 2011, \$40,000 was sent by wire transfer from a bank account maintained in Boston, Massachusetts purportedly belonging

to the Fund to a corporate bank account of Company A. The wire transfer represented the third tranche of funding for Company A.

j. On or about May 4, 2011, RT caused \$20,000 to be sent by wire transfer from a corporate bank account of Company A to a bank account in Boston, Massachusetts purportedly belonging to one of the Fund Manager's nominee companies. This wire transfer represented the kickback to the Fund Manager from the third tranche of funding for Company A.

k. On various dates between on or about March 17, 2011 and on or about May 3, 2011, RT caused stock certificates representing the purchase by the Fund of three tranches of Company A stock – for 25,000, 38,462, and 50,000 Company A shares, respectively – to be sent to the Fund Manager.

2. The SOHM, Inc. Scheme

a. Following the Company A Meeting, Shah found and introduced the Fund Manager to two additional companies in which the Fund Manager could invest the Fund's money in exchange for kickbacks to the Fund Manager. First, on or about April 14, 2011, Shah, along with CW, introduced Shailesh Shah and his company SOHM to the Fund Manager (the "SOHM Meeting"). Although, prior to the meeting, the Fund Manager had not directly offered Shah a percentage of the kickback, Shah knew going into the SOHM Meeting that the Fund Manager planned to meet with him separately, and Shah expected to be compensated for finding and introducing Shailesh Shah and SOHM to the Fund.

b. At the SOHM Meeting, the Fund Manager once again explained the mechanics of the scheme including that he was a manager of an investment fund who was willing to invest money in companies in return for a fifty percent kickback to the Fund Manager and that the Fund's investors had no knowledge about the nature of the proposed deal. The Fund Manager also discussed the mechanics of the funding, informing Shah and Shailesh Shah that he would invest \$5 million of the Fund's money in SOHM but that he would invest the money over time, in "tranches" of increasing amounts. The Fund Manager also explained that, after SOHM received the Fund's money, fifty percent of the money would be kicked back by SOHM to a nominee company that was controlled by the Fund Manager and had no relationship with the Fund. The Fund Manager explained that, in order to conceal the kickback payments, the nominee company would issue a series of invoices to SOHM for services that were never rendered. After the Fund Manager described the scheme, Shailesh Shah agreed to enter into the kickback arrangement.

c. As planned, at the conclusion of the meeting, Shailesh Shah and CW left, and Shah remained to discuss compensation with the Fund Manager. Shah agreed with the Fund Manager that the Fund Manager would pay Shah a portion of the kickbacks paid by Company A, SOHM and any other companies that Shah introduced into the scheme.

d. Following the SOHM Meeting, as Shah was aware, Shailesh Shah prepared the documents related to the scheme, including a consulting agreement with one of the Fund Manager's nominee companies, and sent the documents to the Fund Manager via e-mail. Thereafter, as Shah was aware, the Fund Manager invested a total of approximately \$50,000 of the Fund's money in SOHM in two wire transfer installments of approximately \$20,000 and \$30,000 and received a total of \$25,000 in kickbacks from SOHM and Shailesh Shah in two wire transfer kickback payments of \$10,000, and \$15,000.

e. Specifically, on or about April 20, 2011, \$20,000.04 was sent by wire transfer from a bank account maintained in Boston, Massachusetts purportedly belonging to the Fund to a corporate bank account of SOHM. The wire transfer represented the first tranche of funding for SOHM.

f. On or about April 21, 2011, Shailesh Shah caused \$10,000 to be sent by wire transfer from a corporate bank account of SOHM to a bank account in Boston, Massachusetts purportedly belonging to one of the Fund Manager's nominee companies. This wire transfer represented the kickback to the Fund Manager from the first tranche of funding for SOHM.

g. On or about May 6, 2011, \$30,000 was sent by wire transfer from a bank account maintained in Boston, Massachusetts purportedly belonging to the Fund to a corporate bank account of SOHM. The wire transfer represented the second tranche of funding for SOHM.

h. On or about May 9, 2011, Shailesh Shah caused \$15,000 to be sent by wire transfer from a corporate bank account of SOHM to a bank account in Boston, Massachusetts purportedly belonging to one of the Fund Manager's nominee companies. This wire transfer represented the kickback to the Fund Manager from the second tranche of funding for SOHM.

i. On various dates between on or about April 21, 2011 and on or about May 10, 2011, Shailesh Shah caused stock certificates representing the purchase by the Fund of two tranches of SOHM stock – one for 1666,667 SOHM shares and another for 150,000 SOHM shares – to be sent to the Fund Manager.

3. The Costas, Inc. Scheme

a. On or about May 3, 2011, Shah, along with CW, introduced a second company, Costas, to the Fund Manager on a conference call (the "Costas Call"). During the Costas Call, Shah, Shailesh Shah, CW, and the Fund Manager discussed a potential investment of the Fund's money in Costas, which was also run by Shailesh Shah, in exchange for a fifty percent kickback to the Fund Manager. The Fund Manager again explained that, after Costas received the Fund's investment, fifty percent of the money would be secretly kicked back to the Fund Manager. After the participants in the

conference call discussed the scheme, Shailesh Shah agreed to enter into the kickback arrangement involving Costas.

b. Thereafter, as Shah was aware, Shailesh Shah prepared the documents related to the scheme, including a consulting agreement with one of the Fund Manager's nominee companies, and sent the documents to the Fund Manager via e-mail. As Shah was aware, the Fund Manager subsequently invested a total of \$25,000 of the Fund's money in Costas, and received a total of \$12,500 in kickbacks from Costas and Shailesh Shah.

c. Specifically, on or about May 6, 2011, \$25,000 was sent by wire transfer from a bank account maintained in Boston, Massachusetts purportedly belonging to the Fund to a corporate bank account of Costas. The wire transfer represented the first tranche of funding for Costas.

d. On or about May 9, 2011, Shailesh Shah caused \$12,500 to be sent by wire transfer from a corporate bank account of Costas to a bank account in Boston, Massachusetts purportedly belonging to one of the Fund Manager's nominee companies. This wire transfer represented the kickback to the Fund Manager from the first tranche of funding for Costas.

e. On or about May 10, 2011, Shailesh Shah caused stock certificates representing the purchase by the Fund of 35,715 Costas shares to be sent to the Fund Manager.

4. Shah Receives a Portion of the Kickback Monies

a. Pursuant to the April 11, 2014 agreement between Shah and the Fund Manager, the Fund Manager sent Shah a total of \$5,750, which was a portion of the kickbacks paid by the executives of Company A, SOHM, and Costas and represented Shah's compensation for having introduced the company executives to the Fund Manager and for his facilitation of the on-going schemes.

b. Specifically, on or about April 25, 2011, pursuant to wiring instructions provided by Shah, a \$1,000 payment was sent by wire transfer from a bank account in Boston, Massachusetts purportedly belonging to one of the Fund Manager's nominee companies to a personal bank account controlled by Shah. In accordance with the agreement reached between Shah and the Fund Manager during the SOHM Meeting, the \$1,000 represented Shah's share of the kickback received by the Fund Manager in connection with the first tranche of Fund money invested in SOHM.

c. Similarly, on or about May 5, 2011, pursuant to wiring instructions provided by Shah, a \$2,000 payment was sent by wire transfer from a bank account in Boston, Massachusetts purportedly belonging to one of the Fund Manager's nominee companies to a personal bank account controlled by Shah. In accordance with the agreement reached between Shah and the Fund Manager during the SOHM Meeting,

the \$2,000 represented Shah's share of the kickback received by the Fund Manager in connection with the third tranche of Fund money invested in Company A.

d. Finally, on or about May 12, 2011, pursuant to wiring instructions provided by Shah, a \$2,750 payment was sent by wire transfer from a bank account in Boston, Massachusetts purportedly belonging to one of the Fund Manager's nominee companies to a personal bank account controlled by Shah. In accordance with the agreement reached between Shah and the Fund Manager during the SOHM Meeting, the \$2,750 represented Shah's share of the kickbacks received by the Fund Manager in connection with the second tranche of Fund money invested in SOHM and with the Fund's investment in Costas.

D. VIOLATIONS

1. As a result of the conduct described above, Shah willfully violated Section 10(b) of the Exchange Act and Rule 10b-5(a) thereunder, which prohibit fraudulent conduct in connection with the purchase or sale of securities.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative and cease-and-desist proceedings be instituted to determine:

A. Whether the allegations set forth in Section II hereof are true and, in connection therewith, to afford Respondent an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 15(b) of the Exchange Act including, but not limited to, disgorgement, and civil penalties pursuant to Section 21B of the Exchange Act; and

C. Whether, pursuant to Section 21C of the Exchange Act, Respondent should be ordered to cease and desist from committing or causing violations of and any future violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, whether Respondent should be ordered to pay a civil penalty pursuant to Section 21B(a) of the Exchange Act, and whether Respondent should be ordered to pay disgorgement pursuant to Sections 21B(e) and 21C(e) of the Exchange Act.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondent shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondent as provided for in the Commission's Rules of Practice.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Brent J. Fields
Secretary