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PONZI SCHEME SCAMS NBA, NFL PLAYERS

Just over a year ago, the Financial Industry Regulatory Authority (FINRA) ordered a Washington, DC-based online trading company to cease raising money after it accused the firm of defrauding investors — comprised mostly of NBA and NFL players. Now FINRA has expelled the firm from membership and ordered $13.7 million in restitution after concluding that it conducted an outright Ponzi scheme that victimized investors through the sale of fraudulent promissory notes over a four-year period. Many of the players were introduced to the firm via a registered player financial adviser with the National Football League Players Association (NFLPA).

Misrepresented $19.4 Million in Notes

The complaint alleged that from early 2009 through March 2013, the company swindled $18 million from more than 50 clients by misrepresenting or omitting key facts about the investments and the parent company. Subsequent investigations raised the figure to $19.4 million. The CEO was accused of disbursing sales proceeds from newer investors to pay purported interest of 12.5 percent on three-year promissory notes that had been sold to previous investors.

Parent Company Financially Unsound

During the FINRA hearings held earlier this month, the firm's CEO testified that he omitted material facts regarding the troubled financial condition of the parent company from the offering documents, including the fact that it had lost money every year of the last 14 years except for 2007.

Players' Financial Adviser Denied Culpability

The registered player financial adviser who recommended more than 30 athletes to the firm — and in some cases directly introduced them to the company — received $1.25 million in payments from the $12 million worth of deals made between the players and the firm. The adviser's service was listed as a "division" of the investment firm on a monthly report, three of the firm's representatives who actually sold the fraudulent notes were registered with the adviser and the adviser's offices were listed in the same suite as a McLean, Va., branch of the investment firm.

But despite such connections, the adviser denied having any knowledge of the fraudulent scheme. As he related to Yahoo! Sports last year: "We don't have [the firm's] books. People say, 'Man, you're stupid. You should have looked at [their] last two or three years of income statements.' But you know what? We didn't. You know why we didn't? Because he never missed a damn payment, and we never really thought about it."

According to the NFLPA, by failing to provide requested information as to what, if any, role he played in the fraud, the adviser violated his obligations under NFLPA Player Financial Advisors' Regulations, and as a result, his registration in the financial adviser program has been revoked.

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