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ARBITRAGE FUND MANAGER ARRESTED IN MILLION-DOLLAR INVESTMENT FRAUD SCHEME

CHICAGO -- The manager of a purported Chicago-based arbitrage fund was arrested today on a federal fraud charge for allegedly swindling investors of perhaps millions of dollars, announced Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois. The defendant, **Kenneth B. MacQueen**, the manager of the Dividend Reinvestment Fund, L.L.C., and president of MacQueen Capital Management, Inc., was charged with a single count of wire fraud in a criminal complaint that was made public today following his arrest.

MacQueen, 45, of 10755 Deer Run Dr., Orland Park, was expected to appear late today before U.S. Magistrate Judge Morton Denlow in U.S. District Court in Chicago.

Agents of the U.S. Postal Inspection Service executed search warrants today at MacQueen Capital's office at 175 West Jackson Blvd., Chicago, as well as at an office in his residence. Mr. Fitzgerald announced the arrest with Anita L. Davidson, Inspector-in-Charge of the U.S. Postal Inspection Service in Chicago.

According to the complaint, MacQueen Capital was formed by MacQueen in 1993 and the Dividend Reinvestment Fund was incorporated in 1994 but was involuntarily dissolved by the State of Illinois in September 1997. However, the fund still holds itself out as a limited liability company engaged in dividend reinvestment arbitrage. According to a prospectus, the fund involves trading strategies designed to take advantage of the 2 to 5 percent discount off the market price offered by many issuers by purchasing stock through a company's dividend purchase plan, and immediately reselling the shares for 100 percent of the market price, thus pocketing the 2 to 5 percent discount for its investors. The prospectus also represented that the fund had generated average annual returns of 28.29 percent and that the trading strategy was “extremely low risk.”

The complaint alleges that inspectors interviewed five fund investors, who together invested about $1.325 million in the fund, and MacQueen represented to each of them that the fund was making high returns and the risk was low. He told them they could withdraw some of their funds on 30 days notice and all of their money with 45 days notice, and they each received quarterly statements from MacQueen showing that their investments were consistently profitable. Despite those claims, however, all five investors had difficulty in withdrawing their invested funds, the complaint alleges. One investor from Farmington Hills, Mich., told agents that MacQueen told him that there were more than 100 investors in the fund, which had more than $16 million in assets.

As of Jan. 31, 2003, MacQueen Capital’s brokerage account at Regal Discount Securities only had an asset value of $50,898.38. Records for MacQueen Capital’s bank account located at Lakeside Bank in Chicago show that as of Jan. 31, 2003, there was only $411.23 in the account. The most recent records for the account show a balance as of Feb. 20 of $9,649.52, but also show a returned check of $10,000 on the same day for insufficient funds.

MacQueen allegedly provided at least two investors with phony brokerage account statements, falsely representing that the fund had more than $14 million in assets. MacQueen Capital’s known bank and brokerage accounts have total assets of only approximately $60,000, even though the principal still owed to the five interviewed investors, is about $1 million, not including the better than 25 percent annualized return.

Mr. Fitzgerald and Ms Davidson said the U.S. Securities and Exchange Commission is also assisting in the investigation. The government is being represented by Assistant U.S. Attorney Edward Kohler.

If convicted, wire fraud carries a maximum penalty of 20 years in prison and a $250,000 fine. As an alternative maximum fine, the Court may order a fine totaling twice the gross loss to any victim or twice the gain to the defendant, whichever is greater. Restitution is mandatory. The Court, however, would determine the appropriate sentence to be imposed under the United States Sentencing Guidelines.

The public is reminded that a complaint contains only charges and is not evidence of guilt. The defendant is presumed innocent and is entitled to a fair trial at which the United States has the burden of proving guilt beyond a reasonable doubt.

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