UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, - against - WENSHENG LIN and SHENG LI CHEN, Defendants.	17 Civ. 3054 (VEC) **DECLARATION OF JOSEPH DARRAGH IN SUPPORT OF APPLICATION FOR AN ORDER TO SHOW CAUSE FOR DEFAULT JUDGMENT** **ECF CASE**

I, Joseph Darragh, pursuant to 28 U.S.C. § 1746, declare as follows:

1. I am a Management and Program Analyst for Plaintiff Securities and Exchange Commission ("SEC"). I have been employed by the SEC since September 2015, and previously worked as a contractor at the SEC from November 2013 through August 2015. I serve as an investigator on the Microcap Fraud Task Force. My duties include financial and trading analysis, document review, phone record analysis and interviewing witnesses, among other things, in order to assist SEC investigations into whether there have been violations of the federal securities laws.

2. Prior to joining the SEC, I worked for four years as a Revenue Officer at the Internal Revenue Service's Bridgeport, CT office. I received a B.B.A. in Finance, with a minor in Economics, from Pace University in 2009, and an M.S. in Accountancy from the University of Phoenix in 2010. In July 2013, I was accredited as a Certified Fraud Examiner by the Association of Certified Fraud Examiners.

3. In March 2016, I was assigned to assist in an investigation. Through this investigation, I obtained facts relating to Epicure Charcoal, Inc. ("EPCC"); Immage

Biotherapeutics Corp. ("IMMG"); and Defendants Wensheng Lin ("Lin") and Sheng Li Chen ("Chen").

4. I make this Declaration in support of the SEC's Application for an Order to Show Cause for entry of a default judgment against Defendants Lin and Chen and for related relief.

5. I am familiar with the facts and circumstances herein. I make this Declaration based upon, among other things: (i) my review and analysis of trading information in EPCC and IMMG; (ii) interviews myself and other Commission staff conducted of principals and investors in IMMG or its predecessor company EPCC; (iii) my review and analysis of brokerage records produced by broker-dealers holding accounts in the name of Lin and Chen; (iv) my review and analysis of documents produced by IMMG; (v) my review and analysis of the Electronic Data Gathering, Analysis, and Retrieval system ("EDGAR"), an online system for the receipt, acceptance, dissemination, and analysis of SEC-mandated filings, and (vi) my review and analysis of press releases and promotional emails relating to IMMG.

6. Lin and Chen purchased their shares of EPCC under separate stock purchase agreements dated March 31, 2015. Lin purchased 4,526,067 shares for $16,912.74, for a price per share of $0.003737 from certain South African purported EPCC shareholders. (Ex. A - stock purchase agreement).

7. Chen purchased 3,897,621 shares of EPCC for $14,564.40, for a price per share of $0.003737. (Ex. B - stock purchase agreement).

8. On May 12, 2015, EPCC changed its name to Immage Biotherapeutics Corp. and its ticker symbol to IMMG. (Ex. C - email chain between Attorney A's law firm and Transfer Agent A, May 21, 2015).

9. On May 18, 2015, the original EPCC shares of 37 of the South African investors were cancelled and issued in the name of the ten Chinese investors. (Ex. D - Transfer Agent A records for the May 18, 2015 transfer). A stock certificate for 4,526,067 shares of IMMG was issued to Lin on July 30, 2015. (Ex. E – Lin Stock Certificate). A stock certificate for 3,897,621 shares of IMMG was issued to Chen on August 31, 2015. (Ex. F – Chen Stock Certificate).

10. Lin and Chen subsequently deposited their shares of IMMG at U.S. brokerage firms Broker A and Broker B, respectively. On July 24, 2015, Lin signed a "Client Checklist for Deposit Documentation" with Broker A. (Ex. G - Broker A deposit documentation for Lin). Broker A accepted Lin's deposit of IMMG shares on or around August 20, 2015. (*Id.*) Lin represented to the broker that he: "is not, has not been, and will not be acting in concert with any other person in connection with selling the Shares, and with respect to the Shares, is not an Underwriter as that term is defined in Section 2(a)(11) of the Act." (*Id.* at SEC-####-E-0012588 at ¶ 5). Lin sent $1,038 to Broker A to open the account; $925 of which was used to pay for the fees to deposit his IMMG stock. (Ex. I – Broker A account activity log for Lin, excerpted).

11. On September 14, 2015, Chen's deposit of 3,897,621 shares was approved by Broker B. (Ex. H – Broker B deposit documentation for Chen at SEC-####-E-0000468). Chen sent $1,000 to Broker B to open her account; $985 of which was used to pay for the fees to deposit her IMMG stock. (Ex. J – Broker B account activity log for Chen). The only other assets deposited into Lin's and Chen's accounts were shares of IMMG and the only trading that has occurred in those accounts is sales of IMMG securities. Thus, all remaining monies currently in those accounts represent proceeds from their trading in IMMG securities. (Exs. I and J - Broker A and B account activity logs for Lin and Chen (excerpted)).

A. **Trading In IMMG and Promotional Campaign**

12. IMMG appears to have first traded on September 14, 2015. (Ex. K - Bloomberg chart). Over the following year, IMMG traded on only 20 days, from prices ranging from $0.15 to $0.42, and average volume on days traded of only 2,617 shares. (*Id.*) Beginning in late January 2017, the trading volume for, and price of, IMMG's shares rose on trading that does not coincide with any public news or corporate announcement. (*Id.*)

13. IMMG issued press releases on September 13, 2016, November 28, 2016, January 6, 2017 and February 16, 2017. (Complaint ¶ 37). No IMMG shares traded on any of these days except January 6, 2017, when 300 shares traded. (Ex. K - Bloomberg chart).

14. Beginning on January 30, 2017, however, although no public news or filing by IMMG was issued, trading volume and IMMG's share price both increased markedly. (*Id.*) Both Lin and Chen increased their sales beginning on January 30, 2017. (Ex. L - summary of Lin trading and excerpts from trade blotter of Lin's account; Ex. M - summary of Chen trading and excerpts from trade blotter for Chen's account). I prepared these summaries based on my review of the Defendants' trade blotter data, the relevant excerpts from which are attached to the respective summaries.

15. Beginning on March 28, 2017, until the trading was suspended on April 4, 2017, there appears to have been a concerted promotional campaign tied to a press release issued by IMMG after market close March 27, 2017. (Complaint ¶¶ 38-43 describing false and misleading promotional emails). Volume increased dramatically and the price increased to as high as $1.62 as at least three promotional web-sites sent emails touting IMMG. (Ex. K - Bloomberg chart; Ex. N – IMMG Price and Volume Chart).

16. Between March 28 and April 3, 2017, IMMG's average daily volume was 1,771,165, with a low of $0.40 and a high of $1.62. (Ex. K - Bloomberg chart). During this period of promotional emails -- from March 28, 2017 through April 3, 2017 -- Lin sold approximately 1.28 million shares for net profits of approximately $1.11 million dollars, and Chen sold approximately 660,000 shares for net profits of approximately $486,000. (Ex. L - summary of Lin trading; Ex. M - summary of Chen trading).

17. On April 4, 2017, the Commission suspended trading in IMMG stock for ten days "because of concerns regarding the accuracy and adequacy of information in the market place and potentially manipulative transactions in IMMG's common stock." (Ex. O - Order of Suspension of Trading, *In the Matter of Immage Biotherapeutics Corp.*, File No. 500-1 (Apr. 4, 2017).

B. Lin's Trading

18. After depositing his 4,526,067 IMMG shares in August 2015, Lin made low-volume trades in 2015 and 2016. (Ex. L - summary of Lin trading). Lin traded on four days in 2015 and seven days in 2016, selling less than 20,000 shares total and at most 4,440 shares at a time. (*Id.*) Daily average prices for Lin's sales during this time ranged from $0.165 to $0.42. Beginning in late January 2017, Lin began selling more shares. (*Id.*) On February 9, 2017, just two business days after his funds became available from his recent sales, Lin wired $65,000 funds out of his account to a bank in Hong Kong. (Ex. P - wire request form for Lin, Feb 9, 2017).

19. From January 31, 2017 to March 21, 2017, Lin sold IMMG shares on ten days, with an average 18,774 shares per day, at daily average prices ranging from $0.2543 to $0.7755 per share. (Ex. L - summary of Lin trading).

20. From March 28, 2017, through April 3, 2017, Lin sold a total of 1,279,734 shares in five days, at daily price averages ranging from approximately $0.65 to $1.47 per share. (*Id.*) On March 28 (the first day of the promotional campaign), Lin sold 664,000 shares for net proceeds of $416,080. (*Id.*) On April 3, 2017, the first day the proceeds from the March 28 selling became available, Lin wired $458,000 to the bank in Hong Kong. (Ex. Q - wire request form for Lin, Apr. 3, 2017).

21. In total, Lin sold 1,486,734 shares for $1,226,205.48 (net of fees), with a cost basis of $5,555.92. (Ex. L - summary chart of Lin trading). Thus, his profit on these shares was $1,220,649.56, for a profit of approximately $0.82 per share. (*Id.*)[1]

22. The day after the suspension, on April 5, 2017, Lin requested that Broker A wire out the $311,000 of cash that had cleared in his account that day to his Hong Kong bank account. (Ex. S - wire request form for Lin, April 3, 2017; Ex. T - email chain between Lin and Broker A, April 5, 2017 to April 6, 2017). The next day, April 6, when approximately $400,000 more became available, Lin asked if he should change the wire to reflect all the cash available. (*Id.*). However, Broker A did not process the wire transfer requests. As of April 24, 2017, Lin had $703,218 in proceeds from the sales of his IMMG shares and 3,039,333 remaining IMMG shares deposited with Broker A. The wires that Lin attempted to initiate on April 5 and April 6 represent the proceeds from Lin's sales of IMMG.

[1] Lin intended to sell much more. On April 3, he traded 277,000 shares at an average price of $1.4745, but at 1:35 p.m. he placed sell orders for up to 120,000 shares at 12,000 shares increments at prices from $1.63 to $1.72. (Ex. R - email chain between Lin and Broker A, April 3, 2017 to April 4, 2017).) About an hour later, he increased these unexecuted orders to 20,000 share increments, raising the total additional shares he would have sold to 200,000 shares (had the price kept rising). (*Id.*) Before the market opened on April 4, Lin sent his broker sell orders at progressively rising prices from $1.26 to $1.36 starting at 5,000 units and increasing to 8,000 units. (*Id.*) Lin's hoped for sale of these 73,000 shares could not occur because the trading was suspended.

C. **Chen's Trading**

23. After depositing her 3,897,621 IMMG shares in September 2015, Chen traded in 2015 and 2016. Chen sold IMMG shares on two days in 2015, November 12 and 18, when she sold a total of 5,000 shares for $0.25 per share. (Ex. M - summary of Chen trading). She did not sell any IMMG shares again until January 30, 2017. From January 30, 2017 to March 1, 2017, Chen sold 218,000 shares over 12 days (at an average of 18,167 shares per day) at an average price of approximately $0.47 per share. (*Id.*) On or around March 6, 2017, Chen wired $97,000 from her brokerage account to the same Hong Kong bank to which Lin transferred his proceeds. (Ex. U - wire request form for Chen, Mar. 6, 2017). From March 28 to March 31, 2017, she sold a total of 664,300 IMMG shares at daily average prices ranging from $0.61 to $1.1286. (Ex. M - summary of Chen trading). On March 31, 2017, Chen requested to wire $325,000 from her account to the Hong Kong bank, but Broker B was unable to meet her request because it was having problems at that time processing international wire transfers. (Ex. V - wire request form for Chen, Mar. 31, 2017). When the Commission suspended trading of IMMG, the introducing broker-dealer put a hold on activity in Chen's account.

24. In total, Chen sold 887,300 shares for $586,044.63 (net of fees), with a cost basis of $3,315.84, for a profit of $582,728.79 and an approximate $0.65 profit per share. (Ex. M - summary of Chen trading). As of April 21, 2017, Chen had $488,502.46 in proceeds from the sales of her IMMG shares and 3,010,321 remaining IMMG shares deposited with Broker B. (*Id.*)

25. Based on my review or records from Broker B, on April 3, 2017 Chen placed an order to sell an additional 100,000 shares of IMMG which was unexecuted.

26. On April 19, 2017, after the 10 day trading suspension had elapsed, Broker C emailed Chen and statement, "To reiterate our conversation, we do not trade stocks in the GREY MARKET. Until the stock is lifted up in the OTC Markets as PINK or above, we will not be able to trade the shares for you." (Ex. W- Email from Broker C to Chen, April 19, 2017).

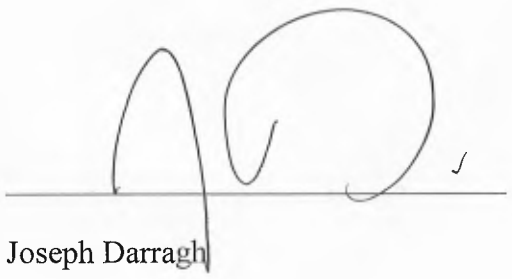
27. I reviewed EDGAR and there were no registration statements filed or in effect with respect to the sales by Lin and Chen to the public.

28. The securities sold by Lin and Chen were sold through the facilities of the U.S. over-the-counter inter-dealer market, which consist of numerous broker-dealer firms that execute transactions through interstate telecommunications networks.

29. I have calculated the prejudgment interest ("pji") on the difference between each Defendants' net pecuniary gain and the amount that has been frozen. For Lin, $1,220,649.56 in net profits minus $703,218 in frozen proceeds equals $517,431.56. For Chen, $582,728.79 in net profits minus $488,502.46 in frozen proceeds equals $94,226.33. Calculating pji on these amounts beginning on the first day of the month after each Defendant last traded and ending on June 30, 2017 results in pji of $3,449.54 for Lin and $942.26 for Chen. (Ex. X - PJI Reports for Lin and Chen).

I declare under the penalty of perjury that the foregoing is true and correct.

Dated: July 7, 2017



Joseph Darragh