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Hedge fund has-beens

Here's what has happened to some of the guys accused of swindling millions.

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By Amanda Cantrell, CNN/Money staff writer

NEW YORK (CNN/Money) - Corporate America has had more than its fair share of indictments in the last few years.

Not to be outdone, hedge funds coughed up their fair share of colorful candidates in the white-collar crime canon. While many of the scams were small, some involved large, supposedly sophisticated funds that hoodwinked even professional investors for millions of dollars.

Here's a look at what's happened to the people involved in some of the most memorable hedge fund scandals in recent years.

Ken Lipper and Edward Strafaci, Lipper & Company

Ken Lipper used to spend his days rubbing shoulders with the Hollywood glitterati and the Wall Street elite. After a Wall Street career that included a stint at Salomon Brothers, Lipper co-wrote the screenplay for the hit film "Wall Street", nabbed an Oscar for producing the 1998 Holocaust documentary "The Last Days" (co-producer: Steven Spielberg), and served as deputy mayor of New York.

When he opened his hedge fund firm, Lipper Investments, celebrities like Julia Roberts jumped aboard as investors. But the trouble began when Edward Strafaci, director of fixed income for the firm and its chief compliance officer, abruptly quit.

Soon, it was discovered that the value of the funds in the firm's $4.9 billion portfolio had been inflated more than 40 percent.Strafaci pleaded guilty to securities fraud in 2004 and was sentenced to prison. The Federal Bureau of Prisons lists his status as "in transit."

Lipper was never charged, but a New York appellate court ordered him to give back the millions he earned in fees while the fraud went on under his nose. Today, Lipper is keeping a low profile and defending himself against numerous civil lawsuits.

John Barry, Thomas Daniels, John Irwin and Mark Miszkiewicz, Beacon Hill Asset Management

The Connecticut-based Beacon Hill Asset Management, which invested in mortgage-backed securities, enjoyed a solid reputation in the hedge fund world based on itshigh-return performance.

But the regulators came knocking in 2002, when the SEC alleged thatBeacon Hill had manipulated procedures for assessing the value of its hedge fund and then inflated the funds' value to investors by more than 50 percent. The alleged misappropriation cost investors $300 million.

The four principals settled the SEC's litigation against them for $4.4 million, which will go to investors. All four principals have been banned by the SEC from working for an investment adviser; Miszkiewicz is allowed to reapply after four years.

Charles Harris, Tradewinds International

Chicago-area money manager Charles Harris told investors in his Tradewinds International commodity pool, which he billed as a hedge fund, that the fund had assets of between $18 and $23 million, when it only had $1.1 million. Harris lost much of the money trading commodity futures, and the Commodity Futures Trading Commission accused him of spending some of it on himself.

The fund's assets eventually dwindled to $30,000, and Harris mailed his investors a DVD in which he proffered a tearful confession and told investors he was going to an undisclosed location offshore so he could earn their money back through more trading. Harris eventually turned himself in to authorities.

Donald O'Neill, Orca Funds

Donald O'Neill ran the purported hedge fund Orca, which claimed to invest in foreign currency futures contracts. But rather than invest, O'Neill took investors' money and ran to Vegas, where he promptly lost $800,000 on a gambling binge.

Following a U.S. Attorney's office indictment against him for mail and wire fraud, O'Neill was arrested in Italy. Today, he is in a South Carolina prison and is expected to be released in 2010.

Mark Yagalla, Ashbury Capital Partners

When Mark Yagalla was busted for bilking little old ladies, he was all of 23 years old.

Yagalla convinced investors, including a handful of elderly women, to sink their life savings into his bogus hedge fund. Then he proceeded to buy luxury cars, a mansion in Las Vegas and extravagant gifts for his Playboy bunny girlfriend, Sandy Bentley.

But karma (and the Feds) caught up with Yagalla – the fleeced investors sued, the government seized his assets and Bentley dumped him. Yagalla pleaded guilty to securities fraud, and in 2003, the government netted $1.3 million in an auction of Yagalla's seized property.

Today, Yagalla's digs are considerably less fashionable – he's serving a five-year, five-month sentence at a federal prison in Pensacola, Florida, according to data from the Federal Bureau of Prisons. He is expected to be released in January 2007.

Michael Berger, Manhattan Investment Fund

Berger's fraud is one of the most well-known – in part because it was one of the first to be so widely reported, but largely because its perpetrator is still on the lam.

Berger, now 33, started a company called Manhattan Investment Fund in 1995 in New York and collected over $575 million from investors through the end of 1999.

All the while, the fund's assets were deteriorating due to big losses – Berger had bet against technology stocks about three years too early. Rather than own up to his losses, Berger issued false letters and altered documents to make it look like performance was much better than it actually was.

By the end of 1999, Berger had blown $400 million. He pleaded guilty to securities fraud in 2000, but later tried to reverse his plea. Today he's on an FBI Most Wanted list for fugitives. ■

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