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# Ozy Media, CEO Accused Of Widespread Investor Fraud

By **Stewart Bishop**

Law360, New York (February 23, 2023, 12:49 PM EST) -- Ozy Media Inc. and its CEO Carlos Watson on Thursday were accused of defrauding investors and lenders who propped up the multimedia and entertainment company by feeding them an array of falsehoods about its dismal financial state.

Watson, 53, a celebrity entrepreneur, journalist and non-practicing lawyer, was arrested early in the morning at the NH Collection New York hotel in Manhattan. He and Ozy Media are both charged with securities fraud conspiracy and wire fraud conspiracy, while Watson faces an additional count of aggravated identity theft.

Prosecutors say Ozy, which produces television shows, podcasts, newsletters and live events, has been supported by funds that were fraudulently obtained from investors and lenders, who relied in part on Ozy's wildly inflated historical annual revenues and other false information.

In addition to Ozy and Watson, former Chief Operating Officer Samir Rao, 36, and ex-chief of staff Suzee Han, 29, were charged and pled guilty earlier this month over their alleged roles in the scheme. Ozy and the three executives are also facing a parallel civil action brought by the Securities and Exchange Commission.

During a Thursday afternoon bail hearing for Watson in Brooklyn federal court before U.S. Magistrate Judge Cheryl Pollak, Assistant U.S. Attorney Jonathan Siegel said that all the investments and loans for Ozy were raised through treachery.

"It is impossible to raise further money for Ozy without committing fraud," Siegel said.

According to the government, from around 2018 to 2021, Watson, Rao and Han lied to investors and lenders about Ozy's debts, revenues, audience numbers, business relationships, other investors, contracts and potential acquisition offers, amidst multiple fundraising rounds that brought in about \$50 million from investors.

Famously, during an early 2021 due diligence call with Goldman Sachs representatives as Ozy was seeking over \$40 million from the investment bank, Rao impersonated a YouTube executive — which Watson himself has since publicly confirmed — using a voice alteration app to peddle a false narrative about a deal with YouTube for Watson's celebrity interview show, "The Carlos Watson Show."

Prosecutors say Watson texted Rao during the charade with instructions about what to say as he posed as the YouTube executive, at one point feeding Rao the line "I am a big fan of Carlos, Samir and the show."

That incident was later revealed in a September 2021 New York Times article, and Watson subsequently blamed the ordeal on an alleged mental health crisis on Rao's part.

Watson on Thursday was ordered to be released on a \$1 million bond, secured by his Silicon Valley home. For the time being, he is barred from contacting any Ozy employees or investors, conditions that prosecutors had sought, and to which Watson's attorneys objected.

According to the government, Watson and Ozy have tried to impede the investigation by the U.S. Attorney's Office for the Eastern District of New York. They allegedly withheld documents from

prosecutors and the SEC and attempted to retaliate against witnesses they believed to be cooperators, including by cutting off money for their legal fees.

Arlo Devlin-Brown of Covington & Burling LLP told Judge Pollak that Watson needs to communicate with investors and employees, as Ozy is a going concern, and if its CEO was prohibited from any contact, "that's a death sentence for the company."

Seigel was relentless, claiming at every step of the way that Watson has run Ozy as a fraud.

"His fraud was pervasive," Seigel said. "It wasn't just him engaging in it, it was him directing his employees [to do so]."

Judge Pollak agreed with the government's proposed restrictions but said she would be open to amending the terms to allow Watson to interact with employees who are only involved in creative roles at the company and who have nothing to do with the business side, if such employees exist.

In a statement, Eastern District U.S. Attorney Breon Peace called Watson a con man, whose business strategy was based on fraud and deceit.

"He ran Ozy as a criminal organization rather than as a reputable media company," Peace said.

Watson counsel Lanny Breuer, also of Covington, said in a statement that he is deeply disappointed by Watson's arrest, since they had been engaged in good faith dialogue with the government.

"Given the department's claims of promoting such dialogue, I do not understand the dramatic decision to arrest Carlos today," Breuer said.

According to the government, in another alleged attempt to con a bank out of financing for Ozy, in December 2019 as Ozy was running low on cash, Watson, Rao, Han and others tried to coax an unnamed bank into lending Ozy money, claiming the loan would be secured by anticipated revenues from a second season of an Ozy cable television show.

The second season deal wasn't finalized at the time, however, so in a gambit to get ahold of the bank's funds sooner, Watson tried to get Ozy's then-chief financial officer to send the bank a fake contract between the bank and the cable network for the Ozy show's second season, according to the indictment.

The CFO refused, so Rao sent the fake contract with a forged signature to the bank and copied the CFO, prosecutors say, who promptly resigned.

"This ... is illegal. This is fraud. This is forging someone's signature with the intent of getting an advance from a publicly traded bank," the CFO allegedly said in an email that day to Watson and Rao. "To be crystal clear, what you see as a measured risk — I see as a felony."

Rao is alleged to have later created a fake email account purporting to belong to an executive of the cable network to correspond with the bank about the potential loan, which ultimately did not materialize.

Watson is due back in court on April 3, absent additional bail proceedings, before U.S. District Judge Eric Komitee.

The government is represented by Jonathan Siegel, Dylan Stern and Gillian Kassner of the U.S. Attorney's Office for the Eastern District of New York.

Watson is represented by Arlo Devlin-Brown and Lanny Breuer of Covington & Burling LLP, as well as Ryan Poscablo of Steptoe & Johnson LLP.

The case is U.S. v. Watson et al., case number 1:23-cr-00082, in the U.S. District Court for the Eastern District of New York.

--Editing by Alyssa Miller.

*Update: This story has been updated with more details.*

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