



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

TO: EDITORS, NEWS DIRECTORS
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RESTITUTION AND PENALTIES ORDERED IN SALE OF FRAUDULENT PROMISSORY NOTES

PHOENIX — The Arizona Corporation Commission ordered Charles Shull, John Ebdon, Cochise Financial Corporation, Carol Ebdon and Daniel Garcia to repay \$4,200,879 to investors who purchased fraudulent promissory notes. The Commission also ordered \$132,000 in penalties for violations of the Securities Act of Arizona.

Starting around June 1995 until July 1999, Shull, Cochise, the Ebdons and Garcia sold unregistered securities in the form of promissory notes to investors. The investors were told that Mr. Garcia had a \$120 million dollar judgment against the State of Arizona arising from a medical misdiagnosis case and he needed money to help collect the judgment. In fact, there never was a judgment in favor of Mr. Garcia against the State of Arizona. The investors, believing they were helping fund Mr. Garcia's collection of his judgment against the State of Arizona, were told the money was to be used for court costs, attorneys' fees, payments to a bonding company, payments for Mr. Garcia's competency tests, Mr. Garcia's living expenses and other miscellaneous expenses.

The promissory notes had short maturity dates and offered a return of two, five, 10 or sometimes as much as a 200 percent return. The rate of return on the notes increased over time. Investors were told that Mr. Garcia would be paid the judgment within just a few weeks and they would be paid the face value of their promissory notes.

When the promissory notes matured and the investors received nothing for their investments, they were given excuses such as: judicial corruption, the case was transferred to another court,

Mr. Garcia's attorney was suspended from practicing law, Mr. Garcia had to pass competency tests before he could receive the money and the (former) Arizona Attorney General Grant Woods was delaying the disbursement of the judgment to Mr. Garcia.

The Commission found that Charles Shull, John and Carol Ebdon, Cochise and Daniel Garcia had acted as dealers and/or salesmen and offered and sold unregistered securities in the form of promissory notes. The Commission also found that the promoters had committed fraud in connection with the offer and sale of the promissory notes. The fraud stemmed from untrue statements of material fact by falsely representing that Mr. Garcia had been awarded a judgment against the State of Arizona; by telling investors that Mr. Garcia's judgement would be paid in a few weeks; by telling investors that they would be paid the face value of their promissory notes; and by other untrue statements.

In ruling on this matter, Commission Chairman Carl Kunasek said, "Our decision here today is a message to Arizona investors that the Commission will take steps to protect their interests. We are also sending a warning to unscrupulous individuals that such actions will have consequences." Commissioner Jim Irvin stressed that "the Commission will take a tough stance and impose severe penalties for these types of illegal activities." Finally, Commissioner William Mundell said, "Investors should be particularly cautious of solicitations to invest in promissory notes and other non-traditional investments. Every attempt should be made to investigate both the investment and the solicitor before any money is put at risk."

Mark Sendrow, director of the Commission's Securities Division, echoed Commissioner Mundell's warning when he said, "Before handing over any money, the public is advised to call the Securities Division to be sure that the salesman and the product are registered." The Securities Division can be reached at (602) 542-4242 or on their web site at www.ccsd.cc.state.az.us.

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