



COMMISSION NEWS

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

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COMMISSION HITS AMERIPRISE FINANCIAL WITH SECOND HEFTY FINE, SANCTIONS OTHERS FOR FRAUDULENT INVESTMENTS

PHOENIX – The Arizona Corporation Commission entered orders requiring multiple individuals and their affiliated companies to return over \$569,000 to investors and to pay \$1.37 million in penalties. Two orders involve a Minnesota-based securities firm that failed to reasonably supervise one of its salesmen. The salesman forged his clients' signatures and spent their money for personal use. The other orders involve an Anthem couple who promoted an unregistered debt-purchasing investment opportunity and a Scottsdale man who promoted a fraudulent home building and land acquisition program.

Ameriprise Financial Services, Inc. and Kenneth Duane Feldhacker

Minnesota-based securities firm, Ameriprise Financial Services, Inc., agreed to pay \$1.25 million in penalties for failing to reasonably supervise its former salesman, 48-year-old Kenneth Duane Feldhacker of Phoenix. Feldhacker forged his clients' signatures and spent their funds for personal use. Feldhacker agreed to pay \$50,000 in penalties and consented to the revocation of his Arizona securities salesman registration.

In 2005, Ameriprise voluntarily brought its investigation of Feldhacker to the attention of the Commission's Securities Division. The Division then launched its own independent review of Feldhacker's activities.

The Securities Division investigation revealed that Feldhacker had forged his customers' signatures in order to withdraw money from their Ameriprise accounts. Over a five-year period, Feldhacker made at least 93 fraudulent withdrawals and transfers from the accounts of seven customers without their

knowledge. In January 2006, Ameriprise terminated Feldhacker after discovering the misconduct. This is not the first time the Commission has sanctioned an Ameriprise salesman and levied a million-dollar penalty on the firm. The Commission previously sanctioned Ameriprise and its predecessor, American Express Financial Advisors, for inadequate compliance policies and procedures.

- April 2000—Failed to reasonably supervise an Arizona adviser who forged an elderly customer's name to misappropriate funds through a joint bank account. The Commission required the company to pay \$125,000 in administrative penalties and to undertake measures to prevent future misconduct.
- December 2005—Failed to reasonably supervise an Arizona adviser who forged at least 23 customer names on advisory service agreements to initiate unauthorized redemptions for payment of fraudulent advice fees. The Commission required Ameriprise to pay \$1 million in penalties and to strengthen its compliance, surveillance and supervisory systems. The firm must file quarterly reports on compliance activities with the Commission's Securities Division.

Ameriprise consented to the Commission order without admitting or denying the underlying facts. Ameriprise has reimbursed Feldhacker's victims a total of \$345,000, which is the full amount of their losses, including interest. Ameriprise has also significantly improved its compliance surveillance system to detect any future misconduct by its salesmen and advisers.

Feldhacker has agreed to never apply as a securities salesman or investment adviser representative at any time in the future. He also pled guilty to a *Class 2 Felony* of fraudulent schemes and artifices, after reaching an agreement with the Office of the Arizona Attorney General. Sentencing is scheduled for October 11, 2006.

Lori Lee Spranger, et al.

An Anthem couple, 37-year-old Lori Lee Spranger and 32-year-old Michael Moriarty, agreed to pay \$50,000 in penalties and to return \$224,660 to investors for fraudulently selling unregistered investment contracts in connection with their home-based business, Vector 90 Debt Purchasing.

The Commission found that, since October 2004, Spranger and Moriarty raised \$295,300 from 15 Arizona investors. They told potential investors that the purpose of their business was to purchase

consumer and commercial debt for pennies on the dollar and then to place those accounts for collection. The duo promoted the investment opportunity either by direct solicitation or through a website, www.vector90.com, touting Spranger's decade of experience in the collection and finance industry.

For \$500, an investor received a "unit" representing \$2,500 in debt with a guaranteed 35 percent return either when collection efforts were successful or by a specified date, whichever occurred first. In their offering materials, respondents told potential investors that they were not a collection agency and that the accounts would be placed with attorneys and collection agencies. The Commission found that they neglected to inform investors that certain accounts were handled by Encompass West, an unlicensed collection agency controlled by Spranger.

The Commission found that respondents failed to inform potential investors of the risks associated with their investment and that:

- Encompass West was sanctioned for unlicensed debt collection activities,
- Spranger had previously filed for bankruptcy, and
- funds would be used for respondents' personal expenses and to pay other investors.

Spranger and Moriarty admitted to the facts only for purposes of the proceeding before the Commission or other state agencies. To date, the principal amount of \$70,870 has been returned to investors.

Thomas C. Messina, et al.

The Arizona Corporation Commission ordered 52-year-old Thomas C. Messina of Scottsdale to return \$345,000 to investors and to pay a \$50,000 penalty for fraudulently selling unregistered investment contracts and promissory notes in a home building and land acquisition program. Messina was not registered to offer or sell securities in Arizona.

Messina represented himself as a successful real estate investor and developer who invested in real estate projects on behalf of his many clients. However, at the time he solicited investors, Messina was a security guard for a Phoenix resort. Before working as a security guard, Messina was a loan officer at a variety of mortgage companies.

The Commission found that, from about April through December 2003, Messina sold promissory notes

and investment contracts promising a 100 percent return to at least 18 investors, some of whom were his former co-workers.

Investors stated that Messina drove them around the Phoenix area to show them vacant land and construction sites of his future real estate developments. Messina told investors that he had placed their money with a developer of low-income housing in the Phoenix area, but the Commission found this statement to be false.

Investors received some payments from Messina, but the payments eventually stopped. In letters to the investors, Messina claimed that the payment checks had ceased because the builder had embezzled funds. An investigation conducted by the Commission's Securities Division, however, revealed that Messina had used most of the investors' funds for his own expenses, including a lease on a Lexus vehicle, and not for any real estate investments or construction projects.

Caution for Investors

Before investing, contact your state securities regulator to check whether both the seller and investment are registered. Entrusting your money with someone for investment purposes, while expecting a profit through the efforts of others, may involve a security and sales agents/dealers subject to registration. **VERIFY BEFORE YOU BUY!** Call the Securities Division, (602) 542-4242, toll free (866) VERIFY-9. The Division's investor education web site also has helpful information at www.azinvestor.gov.

The text of the orders and related documents will be posted at <http://www.ccsd.cc.state.az.us/enforcement/enforce-orders.asp>. All public documents related to the cases can be viewed and/or printed through the Commission's e-Docket system. The case or docket number assigned to the Ameriprise Financial Services matter is S-20427A-06-0526; for Kenneth Duane Feldhacker, S-20469A-06-0527. The case or docket number assigned to the Lori Lee Spranger, et al. matter is S-20441A-06-0082. Regarding Thomas C. Messina, the case or docket number is S-20392A-05-0507.

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