



# COMMISSION NEWS

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

TO: EDITORS, NEWS DIRECTORS  
FOR: IMMEDIATE RELEASE

DATE: March 31, 1998  
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## **SECURITIES DIVISION WARNS OF FRAUD TRENDS; \$13 MILLION IN RESTITUTION AND PENALTIES ORDERED DURING SECOND HALF OF BUSY 1997**

The second half of 1997 proved to be a busy one for scam artists and, as a result, the Securities Division of the Arizona Corporation Commission. The Division, which enforces Arizona's securities fraud laws, filed 30 civil administrative actions and took part in 4 criminal cases. The Division's efforts resulted in more than \$13.2 million ordered in restitution and penalties and 21 indictments.

Unfortunately, Arizona has long been recognized as a hotbed for securities fraud due in part to its large senior citizen population and Baby Boomers increased interest in investments.

The Division has spotted several types of schemes that appear to be on the rise in Arizona.

One popular scheme concerns the promotion of "prime bank" financial instruments, also known as "roll programs," "trading programs," or "high-yield investment programs." Promoters say that these instruments are issued by "prime" international banks to other banks at a significant discount. These prime bank investment opportunities usually involve a high rate of return, with little or no risk. There's one catch – they don't really exist.

Another ever-popular scam concerns ponzi or pyramid schemes. Unlike a legal multi-level marketing scheme, where participants receive income from the sale of a product or service and from the membership fees of subsequent members, an illegal pyramid program promises extraordinary profits based on an ever-expanding circle of new sales people. A member of a pyramid scheme receives compensation principally from the introduction of other persons in the program. The sale of goods or services generates, at best, only a small income. Any person who establishes, operates, advertises, or promotes a pyramid scheme in Arizona is guilty of a felony. According to Michael G. Burton, Securities Division Director, "Pyramid schemes are the financial equivalent of a house of cards. It's not a question of whether they will collapse, only when. Our mission is to stop these types of schemes before the investor writes the check and before these scams gain momentum and grow."

The Division also warns against fraud from mining claims, where promoters of fictitious or

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worthless mining operations promise a king's ransom of everything from gold and silver to oil and gas. The mining fraud cases come in many forms, including investments in the purported mining companies themselves or in the promised future "mother lode" that never comes.

Another area of concern involves registered securities salespersons who deceive their clients and oftentimes their own firms by "selling away" – transacting business without the approval of their firm so that the deals are not recorded on the books and records of the firm. Oftentimes, the selling away occurs because the firm would consider the investment unsuitable for sale to the salesperson's client, or in some instances the "investment" simply is a vehicle for the salesman to steal the customer's funds.

The Division also is promoting a National Investors' Town Meeting on April 4, 1998. The information follows. For information about this release or the Town Meeting, the Division may be contacted at (602) 542-4242 and the public is encouraged to frequently visit the Division's new web site at [www.ccsd.cc.state.az.us](http://www.ccsd.cc.state.az.us).

See attachment for further information about the fraudulent schemes cited in this release.

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**Saturday, April 4, 1998:**

National Investors' Town Meeting

**Location:**

ASU Downtown Center

502 E. Monroe Street (in the Mercado)

**Time:**

10:00am - 1:00pm.

**Registration:**

FREE

**Program of Events:**

Seminar at 10:00 am

Live broadcast 11:00am - 1:00pm.

Information: [www.cc.state.az.us/securities](http://www.cc.state.az.us/securities)

For registration: 542-4242.

For further information about fraudulent investment schemes, copies of the following press releases issued by the Arizona Corporation Commission Securities Division, listed by topic, may be requested by contacting Lisa Kelley, Counsel, at (602) 542-0152, or by e-mail [lk@ccsd.cc.state.az.us](mailto:lk@ccsd.cc.state.az.us):

**Prime Bank Instruments**

"Commission Pursues Convicted Felon, 'Consul Extraordinaire,' and Flagstaff Resident,"  
October 6, 1997  
Contact: LeRoy Johnson (602) 542-0185

**Ponzi/Pyramid**

"Phoenix Man Ordered to Stop Operating Ten Million Dollar Ponzi Scheme"  
September 17, 1997  
Contact: Serri Davila, (602) 542-7368

"Corporation Commission Orders Charles T. Brown and Sun West Investments To Pay Over \$5.1 Million In Restitution"  
November 20, 1997  
Contact: Serri Davila, (602) 542-7368

"Corporation Commission Orders \$6.1 Million Repaid to Arizona Investors"  
October 27, 1997  
Contact: LeRoy Johnson, (602) 542-0185

**Mining**

"Sales of Stock In Gold-Mining Operation Brought To A Halt By Commission"  
September 10, 1997  
Contact: Sharon Fox, (602) 542-0639

**Selling Away/Industry Member Actions**

"Securities Division Negotiates 100% Return Of Investors' Money"  
October 2, 1997  
Contact: Elizabeth Cottor (602) 542-0179

"Phoenix Broker Jailed For Stealing Client Funds"  
October 22, 1997  
Contact: Matt Neubert, (602) 542-0605

"Securities Salesman Terminated and Facing Revocation For Failing To Cooperate In Investigation"  
November 3, 1997  
Contact: Pam Johnson (602) 542-0702

"Securities Salesman Registration Revoked For Failing To Cooperate In Investigation"  
December 16, 1997  
Contact: Pam Johnson, (602) 542-0702

"Securities Dealer Registration Revoked For Engaging In Fraudulent Conduct"  
December 16, 1997  
Contact: Matt Neubert, (602) 542-0605

"Securities Salesman and Stock Research Company Committed Fraud"  
December 16, 1997  
Contact: Elizabeth Cottor, (602) 542-0179

**Exotic Frauds**

"Investing Schemes Sprouting New Hybrids"  
July 2, 1997  
"Corporation Commission Orders \$6.1 Million Repaid To Arizona Investors"  
October 27, 1997  
Contact: Sharon Fox, (602) 542-0639

"Commission Orders End To Children's TV Investment Scam"  
August 11, 1997  
Contact: Sharon Fox, (602) 542-0639

"Corporation Commission Orders \$6.1 Million Repaid To Arizona Investors"  
October 27, 1997  
Contact: Serri Davila, (602) 542-7368

**Seminar/Newsletter Actions**

"Florida-Based Group Ordered To Pay Back Investors And To Keep Its Road Show Out Of Arizona"  
September 5, 1997  
Contact: Brian Schulman, (602) 542-0325

"Publisher of Financial Newsletter Fined Over "DRIP" Deal"  
October 27, 1997  
Contact: Pam Johnson, (602) 542-0702