



ARIZONA CORPORATION COMMISSION

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Corporation Commission Approves Morgan Stanley Settlement of Nearly \$775,000 for Unregistered Investment Sales

Revokes License of Former Banc of America Broker, Halts Real Estate Scam Targeting Military Families

PHOENIX, AZ—The Arizona Corporation Commission today ordered the return of over \$83,797 to investors and the payment of \$797,209 in administrative penalties from a number of unregistered investments that were promoted and sold to Arizona investors, primary among them a settlement with investment firm Morgan Stanley.

In the case of Morgan Stanley & Co., Inc., the company's deficient order entry systems permitted the sale of over \$3.2 million of unregistered securities in Arizona. The company has agreed to pay \$774,709 in administrative penalties as a result of deficiencies in its order entry systems that permitted the offer and sale of unregistered securities to Arizona investors. Morgan Stanley has voluntarily made payments of over \$3.2 million to the Arizona customers affected by the unregistered securities transactions, which occurred between January 1999 and December 2005. This amount is Arizona's portion of a global settlement totaling \$8.5 million. Since its discovery of the unregistered transactions, Morgan Stanley has taken comprehensive actions to investigate and cure the deficiencies as to ensure compliance with state securities registration requirements.

In another case, Kenneth Howard Fraleigh of Tucson, agreed to pay \$15,000 in administrative penalties and \$12,000 in restitution for fraudulently promoting unregistered investment contracts involving real estate. While not registered as an Arizona securities salesman, Fraleigh encouraged friends and family to attend investment seminars where he provided testimonials of his own investment experience with California-based Pacific Wealth Management and received compensation from the company for getting people to invest.

Pacific Wealth Management and its related entities would locate properties, arrange financing using the investor's credit, obtain appraisals and ultimately purchase the residential real estate to be held in the investor's name. The company also decided to whom the properties would be rented and when they would be sold, often targeting military families. In addition to real estate investments, Fraleigh encouraged individuals to obtain cash advances against lines of credit to invest in Total Return Fund, LLC, an affiliate of Pacific Wealth Management. Fraleigh described the fund as a short-term investment opportunity offering an extremely high rate of return.

Additionally, the Commission today revoked the securities registration of Donna M. Shurot, a former stockbroker with Banc of America Investment Services, Inc. for making unauthorized transfers of a client's money into her personal account. Banc of America Investment Services, Inc. became aware of Shurot's unauthorized fund transfers after a sales assistant noticed a movement of funds from the estate of one customer's accounts to Shurot's personal brokerage account. The Commission found that even though she did not spend customer funds, Shurot failed to identify or disclose the unauthorized transfers

until after they were discovered by the broker-dealer. None of the customers suffered financial loss and all of their accounts have been restored with interest. Shurot, of Gilbert, is no longer employed with Banc of America Investment Services, Inc. and has agreed to never apply as an Arizona securities salesman or investment adviser representative at any time in the future.

The next case involved Phoenix resident Linda B. Jordan, who agreed to pay \$71,797 in restitution and a \$5,000 administrative penalty for assisting in the sale of unregistered stock and certificates of participation. Jordan was not registered as an Arizona securities salesperson, but was the director of client services at Arizona-based Trend Capital, LLC. Trend Capital and its subsidiaries, Trend Management Group, Inc. and Trend Group, raised more than \$15.9 million from over 300 investors. Many of the investors were elderly and were led to believe that their investments involved high-interest certificates of deposit guaranteed by a bank. Jordan signed documents to form Trend Group, opened its bank accounts, and was its sole check signer. Besides a salary, Jordan received at least \$50,000 in bonuses for assisting the sale of the unregistered stock and certificates of participation. All of the Trend entities have been charged with securities fraud by the Commission and are under the control of a court-appointed receiver.

The final case involved Avondale residents Raymond Javier Duran and Richard B. Cuen, who agreed to pay a \$2,500 administrative penalty for promoting an unregistered investment opportunity in Lingerie Nights, LLC. Duran and Cuen promoted the investment opportunity on an Internet web site, craigslist.com. They represented to potential investors that their business involved the creation and promotion of their monthly lifestyle magazine on DVD that featured lingerie-themed club events and interviews with aspiring models. Due to early intervention by the Commission's Securities Division, Duran and Cuen stopped their Internet advertisements before obtaining any investor money.

The full text of the Commission orders can be viewed at:

<http://www.azcc.gov/divisions/securities/enforcement/enforce-orders.asp>

Caution for investors:

Even when investing with someone they know, investors should verify the registration of sellers and investment opportunities and investigate disciplinary histories by contacting the Arizona Corporation Commission's Securities Division at 602-542-4242 or toll free in Arizona at 1-866-VERIFY-9. The Division's investor education web site also has helpful information at www.azinvestor.gov.

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