

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 **CARL J. KUNASEK**
Chairman
4 **JIM IRVIN**
Commissioner
5 **WILLIAM A. MUNDELL**
Commissioner

6 In the matter of) DOCKET NO. S-03405A-00-0000
7)
8 **JEROME ALEX ZANOWSKI**) **ORDER TO CEASE AND DESIST**
18424 North 98th Avenue) **AND CONSENT TO SAME**
9 Sun City, Arizona 85373,)
Respondent.)
10 _____) Decision No. _____

11 **I.**

12 **INTRODUCTION.**

13 JEROME ALEX ZANOWSKI (“RESPONDENT”) elects to permanently waive his right to a
14 hearing and appeal under Articles 11 and 12 of the Securities Act of Arizona (“the Act”) with respect to this
15 Order to Cease and Desist (Order); admits the jurisdiction of the Arizona Corporation Commission
16 (“Commission”); admits the Findings of Fact and Conclusions of Law contained in this Order; and consents to
17 entry of this Order by the Commission.
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19 **II.**

20 **FINDINGS OF FACT**

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22 1. JEROME ALEX ZANOWSKI (“RESPONDENT”) is an Arizona citizen whose last known
23 address is 18424 North 98th Avenue, Sun City, Arizona 85373. RESPONDENT is licensed in Arizona to
24 sell insurance.
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2. At all relevant times, JEROME ALEX ZANOWSKI has been married to IRENE L. ZANOWSKI, whose last known address is 18424 North 98th Avenue, Sun City, Arizona 85373. All of

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1 his actions have been in furtherance of the ZANOWSKI marital community. IRENE L. ZANOWSKI was
2 not a respondent in the Notice of Opportunity for Hearing in this action filed on June 26, 2000, but
3 acknowledges that all actions of RESPONDENT, as outlined here, have been in furtherance of the
4 ZANOWSKI marital community.

5
6 **The Promissory Notes**

7 3. In or about November 1996, RESPONDENT sold securities, in the form of a promissory
8 note, to an investor for \$25,000. The note was issued by a Texas company, Ameritech Petroleum, Inc.
9 (“Ameritech”). The note was for nine months and paid ten percent interest. RESPONDENT received a
10 commission of seven percent on the sale. The note was allegedly guaranteed by a bond issued by Tangent
11 Insurance Company.

12
13 4. Ameritech paid the investor back his principal on that investment. Later, on June 3, 1999, the
14 United States Securities and Exchange Commission (“SEC”) sued Ameritech, along with others for violating
15 securities laws by issuing fraudulent promissory notes and perpetuating a Ponzi scheme. The SEC also stated
16 that the alleged bond issued by Tangent Insurance Company was nonexistent. The court later granted
17 judgment for the SEC. On May 12, 2000, the president of Ameritech pled guilty to criminal charges for his
18 actions involving Ameritech and other companies.

19
20 5. On or about March 15, 1999, RESPONDENT sold securities, in the form of a promissory
21 note to an investor for \$100,000. The note was issued by a Florida company, Sebastian International
22 Enterprises, Inc. (“Sebastian”). The note was for nine months and paid 11.25 percent interest.
23 RESPONDENT received a ten percent commission on the sale, or \$10,000. The note was allegedly backed
24 by a bond issued by the New England International Surety Inc. (“NEISI”), located in Belgium.

1 RESPONDENT told the investor that the investment with Sebastian was safe and that the investor would be
2 protected by the insurance bond from NEISI.

3 6. Sebastian paid some interest on the note, but defaulted prior to repayment of the principal.
4 NEISI has failed to pay off its underlying bond. After the default, RESPONDENT attempted to assist the
5 investor in collecting his principal.
6

7 7. On August 19, 1999, the SEC sued the principals of Sebastian for securities fraud, for
8 operating Sebastian as a Ponzi scheme. A receiver was appointed to operate Sebastian. Other states have
9 issued orders against Sebastian and NEISI for the sale of unregistered securities.

10 8. RESPONDENT failed to contact the Arizona Department of Insurance to determine whether
11 Tangent or NEISI were authorized to transact business in Arizona or issue any type of insurance contract or
12 bond in the state of Arizona. If he had, he would have learned that they were not authorized. He failed to
13 contact any governmental regulators prior to recommending that the investor invest in the companies.
14 RESPONDENT did not learn and did not inform the investor in Sebastian that prior to his investment, the
15 Commonwealth of Pennsylvania had issued a cease and desist order against Sebastian ordering it to stop the
16 offer and sale of unregistered securities.
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18 9. RESPONDENT did not inform the investors that the above promissory notes were not
19 registered as securities in Arizona or exempt from registration, failed to inform the investors that he was not
20 registered as a securities dealer or salesman, failed to fully disclose the financial incentives of up to ten percent
21 commissions that he received for selling the promissory notes and failed to provide full disclosure regarding the
22 investment including risk, disclosure statements, prospectuses, financial statements or RESPONDENT's lack
23 of due diligence in investigating the investment.
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26 **The Pay Telephone Contracts**

1 14. RESPONDENT provided literature to the investor regarding the investment. That literature
2 stated that the return was guaranteed. RESPONDENT told the investor that the investment would pay 14%
3 annual interest, plus an 18% bonus after ten years if the contract was kept in place that long. Chemical Trust
4 allowed RESPONDENT to offer investors up to 25% interest. RESPONDENT kept 11% interest for
5 himself as a commission and provided 14% to the investor. RESPONDENT told the investor it was a safe
6 investment, backed by an insurance company bond, issued by U.S. Guaranty Co. (“USGC”).
7

8 15. The literature provided to the investor stated that Chemical Trust had been in business for 14
9 years and had assets of \$725,000,000. Chemical Trust allegedly made profits by purchasing U.S. Treasury
10 notes and distressed property at discount, selling for an immediate profit. USGC allegedly had assets of
11 \$2,415,142,120, which backed up the bond guaranteeing the investment.
12

13 16. On January 7, 2000, the SEC filed a complaint against Chemical Trust, USGC, and others
14 alleging that the money invested with them was misappropriated and sent to offshore bank accounts. It also
15 alleged that newer investors’ funds were being used to pay off older investors, in a Ponzi scheme.
16 Subsequently, a preliminary injunction was issued against the defendants and a receiver appointed to attempt
17 to collect assets.
18

19 17. The investor received one month’s interest payment from Chemical Trust before it defaulted
20 on the investment. Due to the default of Chemical Trust, RESPONDENT did not receive his contracted for
21 commission.
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23 18. RESPONDENT failed to make efforts to determine if any information he was provided was
24 correct, other than talking with IFG. He failed to ascertain whether Chemical Trust or USGC had any assets
25 they claimed in their literature. He failed to contact the Arizona Department of Insurance to determine
26 whether USGC was authorized to transact business in Arizona or issue any type of insurance contract or bond

1 in the state of Arizona. If he had, he would have learned that it was not authorized. He failed to contact any
2 governmental regulators prior to recommending that the investor invest in the companies.

3 19. RESPONDENT did not inform the investor that the Chemical Trust investment contract was
4 not registered as a security in Arizona or exempt from registration, failed to inform the investor that he was not
5 registered as a securities dealer or salesman, failed to fully disclose the financial incentives of up to eleven
6 percent commissions that he received for selling the contract and failed to provide full disclosure regarding the
7 investment including risk, disclosure statements, prospectuses, financial statements or RESPONDENT's lack
8 of due diligence in investigating the investment.
9

10 **The Viatical Policy**

11 20. On or about April 25, 2000, RESPONDENT sold a viatical policy to investors for \$11,475.
12 The policy was issued through Future First Financial Group ("Future First") of Pointe Verda Beach, Florida.
13 RESPONDENT received a commission of seven percent on the sale of the viatical policy. RESPONDENT
14 was given information about the viatical policy from IFG. RESPONDENT asked IFG for additional products
15 to sell after the Chemical Trust product defaulted.
16

17 21. The viatical investors had previously purchased insurance from RESPONDENT.
18 RESPONDENT approached them with the suggestion to purchase the viatical policy. The money used to
19 purchase the policy came from an annuity policy that RESPONDENT had previously sold the investors.
20 They paid a surrender penalty when the money was taken from the annuity.
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22 22. Prior to the sale, on or about February 4, 2000, Future First and its vice-president were
23 indicted by the state of Florida for 81 counts of grand theft and one count of organized fraud in connection
24 with the marketing of fraudulently obtained policies valued at \$6,900,000.
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1 material fact or omitted to state material facts which were necessary in order to make the statements made not
2 misleading in light of the circumstances under which they were made; or (iii) engaged in transactions, practices
3 or courses of business which operated or would operate as a fraud or deceit upon offerees and investors.

4 RESPONDENT'S conduct includes, but is not limited to, the following:

- 5 a. Failing to inform any of the investors that the above securities were not registered as
6 securities in Arizona or exempt from registration;
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8 b. Failing to inform the investors that he was not registered as a securities dealer or
9 salesman;
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11 c. Failing to fully disclose the financial incentives of up to fourteen percent commissions
12 that he received for selling the securities;
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14 d. Failing to provide full disclosure regarding the investments including risk, disclosure
15 statements, prospectuses, financial statements or RESPONDENT'S lack of due diligence in
16 investigating the investments;
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18 e. Failing to inform investors that he had not contacted the Arizona Department of
19 Insurance to determine whether Tangent, NEISI or USGC were authorized to transact
20 business in Arizona or issue any type of insurance contract or bond in the state of Arizona;
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22 f. Failing to inform the Sebastian investor that, prior to his investment, the
23 Commonwealth of Pennsylvania had issued a cease and desist order against Sebastian
24 ordering it to stop the offer and sale of unregistered securities;
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26 g. Failing to inform the viatical policy investors that at the time of their investment, Future
First and its vice-president were under indictment by the state of Florida;

1 h. Failing to disclose to the Chemical Trust investor that Chemical Trust and USGC did
2 not have any of the assets they claimed in their literature;

3 i. Informing the Sebastian investor that his investment was safe and was protected by an
4 insurance bond from NEISI; and

5 j. Informing the Chemical Trust investor that it was a safe investment, backed by an
6 insurance company bond.
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8 **IV.**

9 **ORDER**

10 THEREFORE, on the basis of the Findings of Fact and Conclusions of Law, the Commission finds
11 that the following Order is appropriate, in the public interest and necessary for the protection of investors.
12

13 IT IS ORDERED, pursuant to A.R.S. § 44-2032, RESPONDENT shall Cease and Desist from
14 violations of the Act.

15 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that RESPONDENT and the marital
16 community of JEROME and IRENE L. ZANOWSKI, jointly and severally, shall make monetary restitution in
17 the amount of \$23,361.25 as set forth in the records obtained by the Securities Division.
18

19 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, RESPONDENT and the marital
20 community of JEROME and IRENE L. ZANOWSKI, jointly and severally, shall pay an administrative
21 penalty in the amount of \$10,000, payable to the Treasurer of the State of Arizona for deposit into its general
22 fund.
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24 IT IS FURTHER ORDERED that RESPONDENT and the marital community of JEROME and
25 IRENE L. ZANOWSKI, jointly and severally, shall pay interest on all unpaid amounts of restitution and
26 penalty accruing from the date of entry of the Order, at the statutory rate of ten percent per annum until the

1 amounts are paid in full.

2 IT IS FURTHER ORDERED that restitution funds shall be deposited in an interest bearing account
3 through the office of Arizona Attorney General for the benefit of investors. The Attorney General shall
4 disburse the available funds on a pro rata basis to investors as reflected in the records of the Securities
5 Division. If any disbursement check issued by the Attorney General either is not deliverable or has not
6 cleared the trust account within 120 days of the date of issuance, the funds related to such check shall be
7 redistributed to the known investors. If all investors are paid in full, including interest, any returned funds shall
8 revert to the state of Arizona, payable to the Treasurer.
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10 IT IS FURTHER ORDERED that this Order shall become effective immediately upon the date set
11 forth below.
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13 BY ORDER OF THE ARIZONA CORPORATION COMMISSION
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16 _____
17 CHAIRMAN

COMMISSIONER

COMMISSIONER

18 IN WITNESS WHEREOF, I, Brian C. McNeil, Executive Secretary
19 of the Arizona Corporation Commission, have hereunto set my hand
20 and caused the official seal of the Commission to be affixed at the
21 Capitol, in the City of Phoenix, this ____ day of
22 _____, 2000.

23 _____
24 BRIAN C. McNEIL
25 Executive Secretary

26 _____
DISSENT
(MD)

1 This document is available in alternative formats by contacting Shelly M. Hood, ADA Coordinator, voice
2 phone number 602/542-3931, E-mail shood@cc.state.az.us.

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**CONSENT TO ENTRY OF ORDER BY THE COMMISSION
AND WAIVER OF HEARING**

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3 1. JEROME ALEX ZANOWSKI (“RESPONDENT”) and IRENE L. ZANOWSKI admit the
4 jurisdiction of the Arizona Corporation Commission (“Commission”) over the subject matter of this
5 proceeding, and acknowledge that they have been fully advised of their right to a hearing to present evidence
6 and call witnesses. RESPONDENT and IRENE L. ZANOWSKI knowingly and voluntarily waive all rights
7 to a hearing before the Commission and all other procedures otherwise available under Article 11 of the
8 Securities Act of Arizona (the “Act”) and Title 14, The Arizona Administrative Code. RESPONDENT and
9 IRENE L. ZANOWSKI acknowledge that the accompanying Order to Cease and Desist and Consent to
10 Same (“Order”) constitutes a valid final order duly rendered by the Commission.
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12 2. RESPONDENT and IRENE L. ZANOWSKI knowingly and voluntarily waive any right they
13 may have under Article 12 of the Act to judicial review by any court by way of suit, appeal or extraordinary
14 relief resulting from the entry of this Order.
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16 3. RESPONDENT and IRENE L. ZANOWSKI acknowledge and agree that this Order is
17 entered into freely and voluntarily and that no promise was made or coercion used to induce them to enter into
18 it.
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20 4. RESPONDENT and IRENE L. ZANOWSKI admit the findings of fact and conclusions of
21 law and consent to the entry of the Order. ZANOWSKI and IRENE L. ZANOWSKI agree that they shall
22 not challenge their validity in any present or future administrative proceedings before the Commission or any
23 state agency concerning the denial or issuance of any licenses or registrations required by the State in order to
24 engage in the practice of any business or profession.

25 5. RESPONDENT and IRENE L. ZANOWSKI acknowledge that this Order resolves only
26 administrative violations of the Act and that nothing contained in the Order purports to resolve any other

1 issues that may exist between RESPONDENT, IRENE L. ZANOWSKI and the State. Nothing in the
2 Order shall be construed to restrict or preclude any other agency or officer of the State of Arizona or its
3 subdivisions from initiating other civil or criminal proceedings against RESPONDENT or IRENE L.
4 ZANOWSKI, now or in the future, that may be related to the matter addressed by the Order and the
5 Consent. Nothing in the Order shall be construed to restrict the State's right in a future proceeding to bring an
6 action against RESPONDENT or IRENE L. ZANOWSKI from or related to facts not set forth in the Order.

7 6. RESPONDENT and IRENE L. ZANOWSKI acknowledge that they have been informed
8 and understand that the Commission or its designee, at the Commission's sole and exclusive discretion, may
9 refer or grant access to this matter, or any information or evidence gathered in connection with this matter, to
10 any person or entity having appropriate administrative, civil or criminal jurisdiction. RESPONDENT and
11 IRENE L. ZANOWSKI acknowledge that no representations regarding the above have been made so as to
12 induce them to enter into this Order, including the fact that no promise or representation has been made by the
13 Commission or its designee or staff with regard to any potential criminal liability or immunity from any potential
14 criminal liability.

15 7. RESPONDENT and IRENE L. ZANOWSKI understand that it is the Commission's policy
16 not to permit a Respondent to settle an action by consenting to an order that imposes a sanction while denying
17 the allegations in the Notice. RESPONDENT and IRENE L. ZANOWSKI further understand that the
18 Commission's acceptance of a settlement in this matter is based upon compliance with this policy by
19 RESPONDENT and IRENE L. ZANOWSKI in any statements concerning this proceeding. If
20 RESPONDENT or IRENE L. ZANOWSKI breach this agreement, the Commission may move to vacate
21 this Order and restore this case to its active docket.

22 8. JEROME ALEX ZANOWSKI AND IRENE L. ZANOWSKI acknowledge that any
23 restitution, fines or penalties imposed by this Order are the obligations of JEROME ALEX ZANOWSKI as
24 well as the marital community of JEROME ALEX ZANOWSKI AND IRENE L. ZANOWSKI.
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JEROME ALEX ZANOWSKI

SUBSCRIBED TO AND SWORN BEFORE me this ____ day of _____, 2000,

by Jerome Alex Zanowski

NOTARY PUBLIC

My Commission Expires:

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IRENE L. ZANOWSKI

SUBSCRIBED TO AND SWORN BEFORE me this ____ day of _____, 2000,

by Irene L. Zanowski

NOTARY PUBLIC

My Commission Expires: