



# COMMISSION NEWS

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

TO: EDITORS, NEWS DIRECTORS  
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## ARIZONA'S AGGRESSIVE SECURITIES ENFORCEMENT CITED AT NATIONAL PRESS CLUB BRIEFING

PHOENIX – At a National Press Club briefing today in Washington, the North American Securities Administrators Association (NASAA) announced its Top 10 investment scams. Several cases brought by the Arizona Corporation Commission's Securities Division were used to highlight the role of state regulators in ensuring a safe investment environment.

“With this state’s large population of retirees – who are often targeted by con artists and unscrupulous investment salespeople – we are pleased that our aggressive enforcement and investor education efforts are being recognized at the national level,” explained Arizona Corporation Commission Chairman Bill Mundell.

“The states are often the first line of defense against investment fraud,” Commissioner Jim Irvin said. “Each case we prosecute sends a very clear message to con artists: If you con Arizonans out of their hard-earned money, we’ll make you pay.”

Increased stock market volatility, low interest rates and fears of inflation give rise to investment fraud. Even the most prudent investor can fall victim to a con artist. And sometimes the con artist is a trusted friend or business associate. Three of the cases cited at the National Press Club event involve independent insurance agents who offered investment opportunities to their customers.

“Somewhere in Arizona, a scam artist is pitching a risky promissory note, viatical settlement contract, commodities fraud or ‘prime bank’ scheme,” said Commissioner Marc Spitzer. “Investors need to be wary of any investment pitched as a safe investment with high returns.”

Regulators encourage investors to contact the Commission's Securities Division to check the registration and background of anyone offering an investment opportunity. Investment advisers, brokers and dealers are required to obtain state, and sometimes federal, registrations before offering investment opportunities.

Three of the Top 10 Investment Scams cited by NASAA at the Washington Press Club event have ties to Arizona enforcement actions. They are:

### **Unlicensed individuals, such as independent insurance agents, selling securities.**

- NASAA cites the case of Kurt Woodburn, a Mesa insurance agent, who pled guilty to fraud charges and faces up to 10 years in prison for selling \$1.8 million in worthless stock and bogus promissory notes. Woodburn used investors' funds for personal expenses.
- Another Arizona insurance agent, John Lawson, was sentenced in May to five years in prison and 7 years on probation for bilking 32 investors out of nearly \$2 million. Lawson initially solicited investors to purchase 'living trusts,' then switched them into annuities and finally into bogus promissory notes, earning fat commissions from each transaction. Lawson used investor funds to pay for personal items, including a luxury yacht.
- A licensed insurance agent and his two sons, passing themselves off as investment advisers, convinced several hundred individuals to invest more than \$16.2 million in brokered CDs, viaticals, a tax lien investment program and a money voucher investment program. The Commission ordered full restitution to Chamber Group investors as well as fines and penalties totaling \$133,100.

### **Viatical Settlements**

Although NASAA does not cite specific Arizona cases in detail, viatical investments have been a concern in Arizona for several years. A viatical settlement contract allows an investor to purchase an interest in the life insurance of a terminally ill person. Viaticals came into vogue with the rise of AIDS when terminally ill patients began cashing in their life insurance policies to provide for their continued care and comfort. The patient would receive cash representing a fraction of the life insurance policy's face value. The investor ultimately receives the proceeds of the life insurance policy, less any commissions, upon the death of the patient.

Since the beginning of 2002, Arizona regulators have taken action against:

- Joseph, Travis and Tyson Hiland of The Chamber Group,
- Richard Carrington of Carrington Estate Planning Services, and
- Michael Lynn Bill, Beneficial Assistance, William R. Evans Chartered and Viatical Center

All were prosecuted for the illegal and fraudulent sale of viatical settlement contracts.

## **Charitable Gift Annuities**

Originating as a way to transfer assets to a charity and thereby reduce tax liability, charitable gift annuities involve the transfer of cash or property to a charitable organization. While most annuities offered by charitable organizations are legitimate investments, investors should be wary of investing with little-known organizations or those that provide only sketchy information.

The Commission uncovered a scam that took an average of \$133,000 each from 430 investors nationwide. The investors had purchased charitable gift annuities from the Mid-America Foundation. According to regulators, Robert Dillie, founder of Mid-America, ran what amounted to a \$54 million ponzi scheme through a network of independent insurance agents, financial planners and accountants. Dillie used investors funds to purchase three homes in Las Vegas, a ranch in South Dakota, pay child support, book charter flights and support his gambling habit (although he bounced over \$500,000 worth of checks in Las Vegas casinos).

### **More resources for investors:**

To view NASAA's Top 10 list, click on [www.nasaa.org](http://www.nasaa.org).

To read the Arizona Corporation Commission's recent news releases or to view the "Dirty Dozen Scams, Schemes & Risky Investments," a release issued in April of this year, go to [http://www.ccsd.cc.state.az.us/news\\_releases/2002.asp](http://www.ccsd.cc.state.az.us/news_releases/2002.asp).

To check out an investment or look into the background of someone offering an investment, call the Arizona Corporation Commission's Securities Division at 602-542-4242. From outside Maricopa County, call 1-877-811-3878

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