COMMISSION NEWS

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

TO: EDITORS, NEWS DIRECTORS
DATE: March 21, 2003
FOR: IMMEDIATE RELEASE
CONTACT: Heather Murphy (602)542-0844

COMMISSION SLAMS DOOR ON BOILER ROOM & SANCTIONS OTHERS FOR SECURITIES FRAUD

PHOENIX – The Arizona Corporation Commission yesterday ordered two local start-up companies and several individuals to return over $1.2 million to investors and pay penalties totaling $121,000. The Commissioners took action against these companies for failing to disclose important information and for selling unregistered securities in a check-cashing business and a dot-com company. Another case dealt with risky, unregistered viatical contracts.

Bob's Cash Express, et al.

A start-up, check-cashing company based in Tempe, several affiliated companies and a handful of its representatives consented to multiple counts of securities fraud and registration violations. The Commission noted that this case involved a telemarketing scheme that had all the hallmarks of a "boiler room" operation. In such schemes, high-volume callers push dubious securities products onto an unsuspecting public. Boiler room operations can spring up in almost any commercial office space where multiple phone lines can be installed.

The Commission ordered the following people and entities to stop violating the Securities Act of Arizona:

- Robert H. Roberts of Gilbert, 43
- Garrett L. Wright of Apache Junction, 37
- Dan R. Harper of Phoenix, 43
- Joyce Goodman of Apache Junction, 48
- Bob's Cash Express, Inc.
- Bob's Land One, Inc.
- Challenge/Land USA, Inc.
- Arizona Digital Security Tech., Inc.
- American Dish Tech., Inc.

The Commission also ordered the respondents to pay penalties totaling $40,000 and return the $653,000 raised from dozens of investors who believed the money would be used to develop a chain of check-cashing stores in the metropolitan Phoenix area. The state has already recovered almost $200,000 for investors.

The Commission found that the managers of the investment program had assembled a team of seasoned telemarketers to sell promissory notes to prospective investors throughout the United States. Neither the sellers nor the notes were registered in Arizona as required by law.

The promoters purportedly offered and sold the investment program as a private placement offering and that it was therefore exempt from the state's registration requirements. The Commission found that the offering did not meet the exemption requirements.

The promoters routinely told investors how the offering was soon to "go public" and how such an event would make the investment worth several times its initial value. The Commission found that such claims were baseless.

The promoters also told potential investors the funds would be segregated into a special account throughout the term of the offering. Instead, the Commission's Securities Division discovered that the promoters diverted the money into other bank accounts and ultimately used it for a variety of personal luxuries, including trips, entertainment and even a Cadillac Escalade SUV.

Commissioner Bill Mundell reminded investors to be especially skeptical of investment pitches over the phone.

"Telemarketers who pitch investment opportunities have one main objective – to make a sale," Mundell said. "When you are investing your hard earned dollars, you should do it with someone you trust who has an understanding of your financial situation and your investment objectives. Some person you've never met who calls you out of the blue one day cannot possibly have your best interests in mind."

Non-Stop Shopping.com, et al.

The Commission ordered a Phoenix-based Internet company and a Texas attorney, 55-year-old Kenneth Mark Deubner of Dallas, to stop selling unregistered stock, pay restitution and pay a penalty of $15,000. From June to October 1999, Deubner and his associates sold nine Arizona investors $162,500 worth of unregistered stock in 2c2k.com, Inc., also known as Non-Stop Shopping.com. The start-up company was to feature an online "shopping mall."

Although the company's promoters negotiated with various merchants to offer goods and services, the Commission found that the company did not have a website that actually offered anything for sale. Instead of establishing the website, Deubner funneled money to himself and other principals and promoters of the company. Neither Deubner nor 2c2k.com is registered to offer or sell securities in Arizona.

Deubner purportedly sold the securities to sophisticated investors under the private placement exemption, but the Commission found that Deubner failed to comply with the necessary exemption requirements. In addition, the Commission determined that Deubner and 2c2k.com:

- Failed to provide adequate financial information about the company and its principals,
- Failed to reveal the possible risks to investors; and
- Failed to properly disclose the use of the funds.

The Commission also found that Deubner told investors they could request a refund if the stock did not go public within six months of their investment date. When the deadline passed, some investors requested refunds. Instead of the refunds, investors received publicly traded shares in e-Fling.com, Inc., a Nevada corporation which bought out 2c2k. The buyout took place after several investors started requesting their money back.

Although the e-Fling.com stock was publicly traded, it was listed on what is known as "pink sheets." These are printed listings that contain quotations for stocks listed on the over-the-counter market. Pink sheet stocks tend to be extremely small and sparsely traded, which increases an investor's risk of not being able to sell the stock.

Deubner and 2c2k.com consented to the order without admitting or denying the findings and conclusions of law. The action, however, does not conclude the Commission's case against the remaining respondents, Donald L. Levine of Phoenix, 37, Stephen Rosenbaum of Scottsdale, 64 and Bobbie Jo Swartz of Scottsdale, 29.

David R. Krizman

The Commission revoked the registration of a Tucson securities salesman, 55-year-old David R. Krizman and assessed a penalty of $66,000. Krizman sold unregistered viatical contracts without the approval of his brokerage firm and failed to properly disclose to investors the risks associated with this type of investment. The Commission also ordered Krizman to repay six Arizona investors over $430,000, plus interest.

Viatical settlement contracts are investments in the benefits of life insurance policies, usually of the terminally ill or elderly. Promoters pitch viatical investments as a means to give the terminally ill or elderly person selling his or her policy the money to meet medical bills or achieve a certain quality of life. Meanwhile, the investor is told that he or she will receive a generous return when the insured person dies.

Between 1997 and 2002, Krizman was a registered salesman with Sun America Securities. In May 1998, Krizman agreed to sell viatical contracts offered by Alpha Capital Group, LLC. Krizman promoted the contracts through his own business, Advanced Funding, and received hefty commissions for every viatical policy that he sold. Because Krizman sold the unregistered securities without the approval of his dealer, he engaged in "selling away," a dishonest and unethical practice that is prohibited under state securities laws.

The Commission found that Krizman earned $64,000 in commissions from selling the viatical contracts, all of which were contestable. Contestable policies are risky because if the insurance company finds a policy has been fraudulently obtained or if the insured commits suicide, the insurance company can refuse to pay the death benefit.

The Commission also found that Krizman did not tell investors they were purchasing contestable policies. He misrepresented that viaticals were safe and guaranteed; that investors could readily liquidate their viatical contracts within two years when there was, in fact, no public market for the resale of these investments.

Alpha Capital's viatical contracts are neither registered nor have an applicable exemption from registration in Arizona.

Commissioner Jim Irvin reminds investors that under Arizona law, viatical contracts are securities and must either be registered or have an exemption from registration with the state.

"Viaticals are not liquid investments," Irvin warned. "You receive a return only when the insured person dies. And the insurer may not pay the death benefit if someone stops paying the premiums or if the policy was obtained fraudulently. It is extremely important to fully understand any investment opportunity presented to you before risking your hard earned money."

Prior to investing, people should verify registration of sellers and investment opportunities by contacting the Arizona Corporation Commission's Securities Division at 602-542-4242, toll free outside the Phoenix Metropolitan Area at 1-877-811-3878. The Division's website also has helpful information for investors:

www.ccsd.cc.state.az.us.

###