



# ***DCCA NEWS RELEASE***

BUSINESS REGISTRATION DIVISION

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## **STATE SECURITIES COPS ANNOUNCE ACTIONS AGAINST SELLERS OF PAYPHONE SCHEMES; SO FAR LOSSES ESTIMATED AT \$76 MILLION**

HONOLULU, HAWAII (March 14, 2001) – State securities regulators from across the country today announced actions against individuals and companies that promised high returns from risky or fraudulent investments in pay telephones.

Securities regulators in 25 states<sup>1</sup> participated in the crackdown, identifying nearly 4,500 people, most of them elderly, who lost an estimated \$76 million investing in so-called coin-operated customer-owned telephones. As more states analyze complaints and open investigations, regulators expect losses to rise dramatically.

In a typical pay telephone scheme, state regulators say, a company, through a middleman, sells payphones to investors for between \$5,000 and \$7,000. As part of the sale, the company agrees to lease back and service the phones, usually for a fee. Investors are promised annual returns of up to 15 percent. But state regulators say interest payments, if they are made at all, are often just enough to keep previous investors on board.

For example, Georgia-based ETS Payphones, Inc., founded in 1994, sold nearly 50,000 payphones nationwide. According to a federal district court opinion, ETS was continually seeking new investors because “revenue from payphone operations never covered operating expenses.” During the first six months of 2000, ETS’ losses exceeded \$33 million.

Even as losses piled up, the opinion states the company’s founder, Charles Edwards:

- ? Sponsored a NASCAR racing team;
- ? Purchased a luxury home in Georgia’s exclusive Sea Island community;
- ? Paid himself \$2.24 million in salary between 1998 and 2000;
- ? Received \$700,000 in consultant fees from another payphone enterprise;

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<sup>1</sup> Alabama, Arizona, California, Colorado, Delaware, District of Columbia, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Mississippi, Missouri, Montana, North Carolina, North Dakota, Oklahoma, Oregon, Pennsylvania, Rhode Island, Virginia and Washington.

DEPARTMENT OF COMMERCE & CONSUMER AFFAIRS

BENJAMIN J. CAYETANO, Governor

KATHRYN S. MATAYOSHI, Director

NOE NOE TOM, Deputy Director

- ? Paid \$3 million in management fees to an affiliated company which he also owned; and
- ? Lent over \$11.6 million, interest free, to various companies he controlled.

ETS' Edwards, who contends he defrauded no one, has been replaced and the company is now in bankruptcy reorganization in Delaware.

"Simply put, ETS appears to have been nothing but a Ponzi scheme, recruiting new money to make interest payments to investors and support the lavish lifestyle of top company executives," said Scott Lane, assistant director of enforcement for the Pennsylvania Securities Commission.

In many cases, according to state regulators, the middlemen selling the payphones were independent insurance agents. In Florida, an insurance agent selling ETS payphones used religion and attended social events to gain the trust of at least 200 individuals, who invested roughly \$17 million. Targeting mostly elderly investors, regulators say the insurance agent used promises of 15 percent annual returns to convince many to withdraw money from their IRAs and other retirement accounts.

NASAA President Deborah Bortner, also director of securities in Washington state, said that customer-owned, coin-operated payphones are just one of a number of questionable or fraudulent investments being marketed to often unwary independent insurance agents. Securities regulators in dozens of states, including Nevada and Maryland, have taken action against companies and insurance agents selling bogus payphone, ATM, and promissory note investments, all marketed through newspaper and radio ads and at seminars.

In Iowa, securities regulators say nearly 100 investors sank \$2.2 million into payphones sold by Phoenix Telecom. Under pressure from regulators, Phoenix agreed to offer investors their money back, but failed to honor that agreement. Phoenix was later bought out by ETS, which solicited another \$4 million from 175 Iowa investors.

In Mississippi, Phoenix Telecom used independent insurance agents to raise \$3 million from investors. According to Mississippi securities regulators, the average payphone investor was over 60 years old. Shortly after being taken to court by securities regulators for failing to keep its promise to refund investors' money, Phoenix sold its assets to ETS.

ETS's founder often took to the stump to promote his payphone investments. According to state regulators, a Bible-quoting Edwards helped raise at least \$14 million from 2,000 North Carolina investors.

Before purchasing any investment, state securities regulators urge investors to ask the following questions:

- ? *Does the investment meet your personal investment goals?* Whether you are investing for long term growth, investment income or other reasons, an investment should match your own investment goals;
- ? *Are claims made for the investment realistic?* Some things really are too good to be true. Use common sense and get a professional, third party opinion when presented with investment opportunities that seem to offer unusually high returns in comparison to other investment options. Pie-in-the-sky promises often signal investment fraud;

- ? *Has the seller given you written information that fully explains the investment?* Make sure you get proper written information, such as a prospectus or offering circular, before you buy. The documentation should contain enough clear and accurate information to allow you or your adviser to evaluate and verify the particulars of the investment.
- ? *Are the seller and investment licensed and registered in your state?* Call your state securities regulator to find out. If they are not, they may be operating illegally.

For more information, investors can contact Securities Enforcement at 586-2740 and the toll-free numbers for the neighbor islands are as follows:

Big Island:	974-4000, then enter 62740 and #
Kauai:	274-3141, then enter 62740 and #
Maui:	984-2400, then enter 62740 and #
Molokai & Lanai:	1-800-468-4644, then enter 62740 and #.