

CARL J. KUNASEK
CHAIRMAN

JIM IRVIN
COMMISSIONER

WILLIAM A. MUNDELL
COMMISSIONER

OPEN MEETING ITEM



0000043967

MARK SENDROW
DIRECTOR

RECEIVED

2000 MAR 29

SECURITIES DIVISION
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ARIZONA CORPORATION COMMISSION

MEMORANDUM

SECURITIES DIVISION
DOCUMENT CONTROL

TO: Chairman Carl J. Kunasek
Commissioner Jim Irvin
Commissioner William A. Mundell

FROM: Mark Sendrow *MS*
Director of Securities

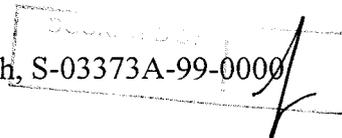
DATE: March 29, 2000

RE: Proposed Order for Relief for Michael R. French, S-03373A-99-0000

CC: Brian C. McNeil, Executive Secretary

Arizona Corporation Commission
DOCKETED

MAR 29 2000



Attached is a proposed Order of Relief ("Order") regarding Michael R. French. The Order is a default order. The Notice specified that Mr. French would be afforded an opportunity for an administrative hearing on this matter upon filing a written request with Docket Control of the Commission within ten (10) days of receipt of the Notice. Mr. French was served a copy of the Notice on December 9, 1999 by personal service upon an adult resident at his home address as stated above. He failed to request a hearing. The other Respondents in the Notice have entered into a consent order which is also scheduled for this Open Meeting.

The Order finds that Mr. French attempted to sell securities, in the form of promissory notes, to an Arizona investor. The investor was a Securities Division investigator who tape-recorded the transaction. Mr. French was not licensed as a securities salesman in Arizona, nor were the securities registered or exempt from registration. The Order also finds that Mr. French failed to tell the Arizona investor about previous Commission orders and criminal convictions in his past and made material misstatements or omissions.

Previously, on July 24, 1995, French had been convicted of making false statements in connection with an application and use of a passport. French was sentenced to, among other things, thirty-six months of probation. The terms of his probation barred him from engaging in any profession involving fiduciary duties.

On October 10, 1995, French entered into a Consent Order with the Commission, admitting to violations of the Securities Act concerning his application for registration as a securities salesman in which he failed to disclose his indictment and later conviction for making false statements in

connection with an application and use of a passport. The Consent Order barred French from committing further violations of the Securities Act.

On February 25, 1997, the Commission entered a Temporary Order to Cease and Desist against French and others, for offering to sell or selling securities in violation of A.R.S. §§ 44-1841, 44-1842 and 44-1991. On December 18, 1997, the Commission entered a final order finding that the respondents, including French, violated the Securities Act and ordering them to cease and desist their activity and pay restitution and an administrative penalty. According to the records of the Commission, French has failed to pay any restitution or penalty on that order.

On June 17, 1998, French was sentenced to Federal prison for one year and one day, for violating his probation. Upon his release from prison, he was placed on supervised release for twenty-four months. Pursuant to the terms of his probation, French was prohibited from engaging in any telemarketing programs, sales of securities, or any other matters in a similar related business, selling investments or investment opportunities. Acting pursuant to the Securities Division's investigation, the Federal government has sought to revoke Mr. French's probation.

The Order requires Mr. French to cease and desist his activity. It also imposes a penalty of \$25,000. It does not include restitution as recovery to the victims is covered by a consent order involving the other Respondents.

Originator: Mark Dinell

AG Assigned: Moira McCarthy

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 CARL J. KUNASEK
4 Chairman
5 JIM IRVIN
6 Commissioner
7 WILLIAM A. MUNDELL
8 Commissioner

9 In the matter of)
10)
11) SUPERIOR LEASING OF ARIZONA, INC.,)
12) An Arizona corporation,)
13) 2655 W. Guadalupe Rd., #30)
14) Mesa, AZ 85202)

15) LLOYD H. ROCKWELL,)
16) An individual,)
17) 3025 S. Cascade Pl.)
18) Chandler, AZ 85248)

19) MICHAEL R. FRENCH,)
20) An individual,)
21) 5311 N. Stetson)
22) Prescott Valley, AZ 86314)

23) Respondents.)
24)
25)
26)

DOCKET NO. S-003373A-99-0000

DECISION NO. _____

**ORDER TO CEASE AND DESIST AND
ORDER FOR ADMINISTRATIVE
PENALTIES RE: MICHAEL R.
FRENCH**

27 **I.**

28 **INTRODUCTION**

29 On December 9, 1999, the Securities Division ("Division") of the Arizona Corporation
30 Commission ("Commission") filed a Notice of Opportunity for Hearing Regarding Proposed Order
31 for Relief ("Notice") against the above Respondents. The Notice specified that Respondents would
32 be afforded an opportunity for an administrative hearing on this matter upon filing a written request
33 with Docket Control of the Commission within ten (10) days of receipt of the Notice. MICHAEL
34 R. FRENCH was served a copy of the Notice on December 9, 1999 by personal service upon an
35 adult resident at his home address as stated above. FRENCH failed to request a hearing.
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II.

FINDINGS OF FACT

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3 1. MICHAEL R. FRENCH ("FRENCH"), whose last known address is 5311 N.
4 Stetson, Prescott Valley, AZ 86314, is a salesman for Respondent SUPERIOR LEASING OF
5 ARIZONA, INC. ("SLAZ").

6 2. FRENCH has engaged in the offer or sale within or from Arizona of securities in the
7 form of promissory notes or investment contracts to the general public.

8 3. In or about November 1999, FRENCH offered to sell securities, in the form of
9 promissory notes or investment contracts to an Arizona investor. FRENCH informed the investor
10 that he would receive thirty percent interest per annum on his investment, rising to thirty-six
11 percent per annum if he invested at least \$100,000. The promissory note would be for one year,
12 with the option to renew it. FRENCH stated that when the investor sent in his investment,
13 documents for the investment would be sent to him.

14 4. FRENCH provided the investor with examples of their documents, including a
15 promissory note. FRENCH represented that other people had invested in SLAZ. FRENCH also
16 told the investor that after his investment was submitted, SLAZ would make all business decisions
17 regarding SLAZ.
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19 5. FRENCH represented that SLAZ was in the automobile sale lease back business.
20 SLAZ would purchase automobiles from individuals in need of cash, and then lease the cars back
21 to the individuals. According to FRENCH, SLAZ was collateralized by at least a five-to-one ratio
22 on the value of the car to the purchase price given to the individual. They told the investor that the
23 default rate was less than one percent and that there was not much risk in the investment.
24 Additionally, FRENCH stated that there was no risk to the investor even if SLAZ was unable to
25 reclaim the vehicle; the investor would get paid regardless of that happening.
26

1 6. FRENCH also described the investment as a bond from SLAZ that would be
2 converted into stock when SLAZ went public. FRENCH told the investor that the investment did
3 not need to be registered, as it was not a security. He stated that Warner Brothers Studios was
4 expected to invest \$50,000,000 in SLAZ, with the first installment of \$5,000,000 expected before
5 December 31, 1999. After the full investment, SLAZ should have a value of \$600,000,000, with
6 annual net income of \$60,000,000. FRENCH urged the investor to invest quickly as the
7 investment would not be available after the Warner Brothers' investment. As FRENCH described
8 it, the bond conversion stock would still pay thirty percent interest even after the company went
9 public. FRENCH also told the investor that he has been a stockbroker for almost eleven years.

10 7. Previously, on July 24, 1995, FRENCH had been convicted of making false
11 statements in connection with an application and use of a passport, in violation of 18 U.S.C. §
12 1542, a felony. FRENCH was sentenced to, among other things, thirty-six months of probation.
13 The terms of his probation barred him from engaging in any profession involving fiduciary duties.

14 8. On October 10, 1995, FRENCH entered into a Consent Order with the Commission,
15 admitting to violations of the Securities Act concerning his application for registration as a
16 securities salesman in which he failed to disclose his indictment and later conviction for making
17 false statements in connection with an application and use of a passport. The Consent Order barred
18 FRENCH from committing further violations of the Securities Act. *In the Matter of the Salesman*
19 *Registration of Michael Richard French*, Docket No. S-3101-I.

20 9. On February 25, 1997, the Commission entered a Temporary Order to Cease and
21 Desist against FRENCH and others, for offering to sell or selling securities in violation of A.R.S.
22 §§ 44-1841, 44-1842 and 44-1991. *In the Matter of the Offering and Sale of Securities by*
23 *Interactive Television, Inc., et al.*, Docket No. S-3191-I. On December 18, 1997, the Commission
24 entered a final order finding that the FRENCH, including FRENCH, violated the Securities Act and
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1 ordering them to cease and desist their activity and pay restitution and an administrative penalty.
2 According to the records of the Commission, FRENCH has failed to pay any restitution or penalty
3 on that order.

4 10. On June 17, 1998, FRENCH was sentenced to Federal prison for one year and one
5 day, for violating his probation. Upon his release from prison, he was placed on supervised release
6 for twenty-four months. Pursuant to the terms of his probation, FRENCH is prohibited from
7 engaging in any telemarketing programs, sales of securities, or any other matters in a similar
8 related business, selling investments or investment opportunities.

9 11. FRENCH omitted to inform investors about any facts concerning FRENCH listed in
10 paragraphs 7-10.

11 12. Respondents SLAZ, SUPERIOR HOLDING GROUP, INC. and LLOYD H.
12 ROCKWELL, entered into a proposed consent order in which all investors would be offered
13 rescission of their investments. That proposed order is scheduled to be considered by the
14 Commission at its Opening Meeting of April 11, 2000.

16 III.

17 CONCLUSIONS OF LAW

18 1. The Commission has jurisdiction over these matters pursuant to Article XV of the
19 Arizona Constitution and A.R.S. § 44-1801, *et seq.*

20 2. In or about November 1999, MICHAEL R. FRENCH offered and/or sold securities in
21 the form of notes, investment contracts or evidences of indebtedness, within and/or from Arizona.

22 3. The securities referred to above were not registered under A.R.S. §§ 44-1871 through
23 44-1875, or 44-1891 through 44-1902; were not securities for which a notice filing has been made
24 under A.R.S. § 44-3321; were not exempt under A.R.S. §§ 44-1843 or 44-1843.01; were not offered
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1 or sold in exempt transactions under A.R.S. § 44-1844; and were not exempt under any rule or order
2 promulgated by the Commission. This conduct violated A.R.S. § 44-1841.

3 4. In connection with the offers to sell and the sale of securities, MICHAEL R. FRENCH
4 acted as a dealer and/or salesman within and/or from Arizona, although not registered pursuant to the
5 provisions of Article 9 of the Securities Act. This conduct violated A.R.S. § 44-1842.

6 5. In connection with the offers and sales of securities within and/or from Arizona,
7 MICHAEL R. FRENCH directly or indirectly: (i) employed a device, scheme or artifice to defraud;
8 (ii) made untrue statements of material fact or omitted to state material facts which were necessary in
9 order to make the statements made not misleading in light of the circumstances under which they
10 were made; and (iii) engaged in transactions, practices or courses of business which operated or
11 would operate as a fraud or deceit upon offerees and investors. FRENCH'S conduct includes, but is
12 not limited to, the following:
13

14 a) Failing to disclose the Commission orders imposed against FRENCH,
15 including those orders barring him from violating the Securities Act;

16 b) Failing to disclose the criminal record of FRENCH, including that the terms of
17 his probation barred him from telemarketing, selling securities or investments;

18 c) Failing to disclose material information about the investment, including
19 disclosure statements, prospectuses or financial statements; and

20 d) Making misleading statements regarding the risk involved in the investment.

21 e) Informing an investor that the securities in FRENCH'S offer did not need to be
22 registered under the Securities Act; and

23 f) Informing an investor that he had been a stockbroker for eleven years when his
24 registration as a securities salesman was denied in 1995, after he had been a salesman for only
25 six years and omitting to inform the investor that FRENCH's securities salesman registration
26

1 had been denied by the Commission and suspended by the National Association of Securities
2 Dealers.

3 6. This conduct violated A.R.S. § 44-1991.

4 **IV.**

5 **ORDER**

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

9 1. IT IS HEREBY ORDERED, pursuant to A.R.S. § 44-2032, that Respondent
10 MICHAEL R. FRENCH permanently cease and desist from violating the Securities Act.

11 2. IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that MICHAEL R.
12 FRENCH shall pay an administrative penalty of \$25,000. Payment to be due within 30 days of the
13 issue of this Order. Payment shall be made by cashier's check to the "State of Arizona" for deposit in
14 the General Fund of the state.

15 3. IT IS FURTHER ORDERED that upon failure to make payment when due, interest
16 shall accrue upon default at the statutory rate of ten percent per annum.
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4. IT IS FURTHER ORDERED that this decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

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

BRIAN C. McNEIL
Executive Secretary

DISSENT

This document is available in alternative formats by contacting Cynthia Mercurio-Sandoval, ADA Coordinator, voice phone number 602/542-0838, E-mail csandoval@cc.state.az.us.