

WILLIAM A. MUNDELL  
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JIM IRVIN  
COMMISSIONER

MARC SPITZER  
COMMISSIONER



ORIGINAL



0000044335

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ARIZONA CORPORATION COMMISSION

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MEMORANDUM  
AZ CORP COMMISSION DOCUMENT CONTROL

OPEN MEETING ITEM

TO: Chairman William A. Mundell  
Commissioner Jim Irvin  
Commissioner Marc Spitzer

Arizona Corporation Commission

DOCKETED

9/26/02

FROM: Mark Sendrow *MS*  
Director of Securities

SEP 13 2002

DATE: September 13, 2002

DOCKETED BY	<i>CAH</i>
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RE: Docket No. S-03150A-02-0000, Netgo, et al.  
Proposed Order To Cease And Desist, Order Of Restitution and Order For  
Administrative Penalties Re: M-Corp International, Ltd.

CC: Brian C. McNeil, Executive Secretary

Attached is a proposed Order to Cease and Desist, Order of Restitution and Order for Administrative Penalties for Respondent M-Corp International, Ltd. ("MCIL"). It is a default order. MCIL was served with a Notice of Opportunity for Hearing, but did not file a request for a hearing. The Order requires MCIL to cease and desist its activity, to pay the remaining restitution, \$1,500,000, to all investors and to pay a penalty of \$30,000. The penalty is joint and several with Respondents Norman Michael Miller ("Miller") and M-Corp International ("M-Corp"), who have tendered the penalty amount. Additionally, \$3,000,000, constituting the principal amount of the investment, has been paid by the other Respondents. The remaining restitution is interest. The other six Respondents in this action have entered into consent orders which are also scheduled for this Open Meeting.

From 1996 forward, Respondents raised \$2,785,000 from 102 investors across the world. The investments were allegedly to invest in a high yield debenture trading program. Such operations are commonly known as prime bank schemes. Some of the Respondents actually solicited investments in two such schemes, the first beginning in 1996. After it was apparent that the first scheme was not operating, the participants obtained return of their funds, raised additional funds and in 1998 invested in a second scheme. Respondents SDIC Partnership ("SDIC") and Neil Lewis ("Lewis"), with assistance from Respondent Norman Michael Miller ("Miller") raised the funds from investors, informing investors that there was no risk to any principal invested in the program. They informed investors that the money already invested was held in Certificates of Deposit and were pledged as collateral in the program. The funds were

transmitted to M-Corp, MCIL and Miller (the "Miller Respondents") who were to be responsible for placing the funds into the program. Lewis then formed Respondent Netgo in 1998. It ostensibly was created to replace Lewis as an investment administrator for the prime bank scheme. Netgo had the SDIC investors issue powers of attorney to it to act as the administrator of the investment and the investment proceeds. Some of the money for the scheme went through the Netgo bank account.

In December 1998, Respondents proposed that the investors exchange their partnership interests in SDIC to stock interests in Respondent Camelback, Ltd. ("Camelback"). Investors were told that to remain with the program they had to become a Camelback stockholder, otherwise their principal would be returned to them. The investors were also told that their investment was now worth over \$96,000,000. All investors then agreed that their partnership interests in SDIC would be exchanged for stock in Camelback.

During operation of the program, investors continued to be told trading was going well and that large profits were being made. However, no trading market for discounted debt instruments from major banks that generated very high profits with no risk to the investor exists.

In 2001, Lewis filed a lawsuit against Miller. Subsequent to the lawsuit, Lewis solicited funds from the investors, ostensibly to fund the lawsuit.

This Order finds that MCIL violated A.R.S. §§ 44-1841, 44-1842 and 44-1991. After filing this Notice, and in compromise of the claims, Respondents, through funds from the Miller Respondents, have paid \$3,000,000 in restitution. Those funds have already been distributed to all investors. Thus, at this time, all investors have received back their principal. Respondents have also agreed to pay investors \$1,500,000, to be paid in the amount of \$250,000 on March 26, 2003, and each anniversary of March 26, commencing on March 26, 2004, until either all investors are paid all principal and interest on their investment or until investors have received total payments of \$4,500,000. MCIL is jointly and severally responsible for the payments.

The Division recommends approval of the Order. The investors' principal has been returned to them, with Respondents, including MCIL, responsible for the remaining interest. The penalty has also been paid. Additionally, the Order serves as a deterrent to other entities that seek to sell prime bank schemes in Arizona.

Originator: Mark Dinell

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL  
3 Chairman  
4 JIM IRVIN  
5 Commissioner  
6 MARC SPITZER  
7 Commissioner

8 In the matter of:

9 NETGO, INC.  
10 4300 N. Miller Road, Suite 230  
11 Scottsdale, AZ 85251

12 SDIC PARTNERSHIP  
13 4300 N. Miller Road, Suite 230  
14 Scottsdale, AZ 85251

15 M-CORP INTERNATIONAL  
16 5221 Southern Hills  
17 Frisco, Texas 75034

18 M-CORP INTERNATIONAL, LTD.  
19 A Turks and Caicos corporation  
20 5221 Southern Hills  
21 Frisco, Texas 75034

22 CAMELBACK, LTD.  
23 A Turks and Caicos corporation  
24 4300 N. Miller Road, Suite 230  
25 Scottsdale, AZ 85251

26 NEIL DENNIS LEWIS  
7680 East Mariposa  
Scottsdale, AZ 85251

NORMAN MICHAEL MILLER  
5221 Southern Hills  
Frisco, Texas 75034

Respondents.

) DOCKET NO. S-03150A-02-0000

) DECISION NO. \_\_\_\_\_

) **ORDER TO CEASE AND DESIST,  
) ORDER OF RESTITUTION, ORDER  
) FOR ADMINISTRATIVE PENALTIES  
) AND CONSENT TO SAME BY:  
) RESPONDENT M-CORP  
) INTERNATIONAL, LTD.**

24  
25 On February 26, 2002, the Securities Division of the Arizona Corporation Commission  
26 filed a Notice of Opportunity for Hearing Regarding Proposed Order of Relief against M-Corp

1 International, Ltd. ("MCIL"). The Notice specified that MCIL would be afforded an opportunity  
2 for an administrative hearing regarding this matter upon filing a written request with Docket  
3 Control of the Commission within ten days of receipt of the Notice. MCIL failed to request a  
4 hearing within the required time.

5 **I.**

6 **FINDINGS OF FACT**

7 1. M-CORP INTERNATIONAL, LTD. ("MCIL") is a Turks and Caicos corporation,  
8 located at 5221 Southern Hills, Frisco, Texas 75034. M-Corp was served with a Notice for  
9 Opportunity on . M-Corp did not request a hearing.

10 2. From on or about April 15, 1996 through present, the Respondents MCIL, NETGO,  
11 INC., SDIC PARTNERSHIP ("SDIC"), CAMELBACK, LTD. ("CAMELBACK"), M-CORP  
12 INTERNATIONAL, NORMAN MICHAEL MILLER and NEIL DENNIS LEWIS (collectively  
13 "RESPONDENTS") offered for sale and sold interests in SDIC and CAMELBACK within or from  
14 Arizona to investors. The offering materials indicated that the invested funds were to be pooled  
15 and used in a program directed by RESPONDENTS alleged to create very high profits. At present,  
16 RESPONDENTS have obtained funds from at least 100 investors, in the principal amount of  
17 \$2,785,000.

18 3. LEWIS created a marketing organization known as International Mergers and  
19 Acquisitions ("IMA"). IMA recruits members for a fee. Once a person becomes a member of  
20 IMA, it can attend training seminars and obtain referrals for work in the area of the members'  
21 expertise. The referrals come from other IMA representatives or through LEWIS. IMA alleges  
22 that it has at least 55 members throughout the world.

23 4. RESPONDENTS sent numerous materials regarding investment programs to IMA  
24 members. The materials regarding the investments stated that all investors' funds would be  
25 completely safe, with a guaranteed rate of return, as the funds would be backed by a guarantee  
26

1 from a "Prime Bank." The materials stated that those funds would remain in a bank or brokerage  
2 account and be used to generate a line of credit that would then be traded, returning profits. The  
3 materials claimed that the investor had no risk and would be in control of their investment at all  
4 times. RESPONDENTS claimed that due to weekly trading and compounding, returns would start  
5 at 60%. RESPONDENTS called the program a Credit Enhancement Loan Program, although  
6 these programs were also known as roll programs or prime bank loan programs.

7       5.       Between April 1996 and June 18, 1996, SDIC and LEWIS had raised \$300,000  
8 from members of IMA to invest in a high return loan program. Subsequently, on September 25,  
9 1996, SDIC and LEWIS placed the \$300,000 in funds into another alleged high return loan  
10 program. SDIC and LEWIS promised investors that there would be a 100% annual return, with  
11 collateral of 110% invested in "U.S. Treasuries." SDIC and LEWIS also promised that the funds  
12 would be deposited with "a major accounting firm." MILLER also joined in that program, and  
13 assisted SDIC and LEWIS in arranging the investment. On October 16, 1996, SDIC, LEWIS and  
14 MILLER wired \$300,000 from the bank account in Arizona to a Texas bank to invest in a prime  
15 bank program. On July 30, 1997, SDIC and LEWIS requested that the \$300,000 be returned. The  
16 funds were then refunded to SDIC.

17       6.       MILLER then suggested that SDIC and LEWIS join in another high yield  
18 investment program. SDIC signed a "Private Placement Agreement" with MCIL on July 29, 1997.  
19 MILLER signed on behalf of MCIL as its Registered Agent.

20       7.       MILLER appeared at IMA meetings in 1997 and 1998 which he discussed the  
21 program and informed the potential investors about it. MILLER informed investors that there was  
22 no risk to any principal invested in the program. He informed investors that the money already  
23 invested was held in Certificates of Deposit and were pledged as collateral in the program. That  
24 was untrue as in fact funds were misused for other purposes.

25       8.       SDIC, LEWIS, MILLER, MCIL and M-CORP. put the \$300,000 they had raised  
26 from investors into that program, plus \$200,000 more that RESPONDENTS had solicited from

1 investors. RESPONDENTS informed investors that they were "piggy-backed" with a  
2 \$650,000,000 investor. LEWIS informed investors that the program would continue until January  
3 or February 1999. RESPONDENTS then sent a report to the investors promising that the  
4 \$300,000 invested, if compounded, would yield \$164,829,450 in one year.

5 9. LEWIS formed NETGO in 1998. It ostensibly was created to replace LEWIS as an  
6 investment administrator for the prime bank scheme. NETGO allegedly had the SDIC investors  
7 issue powers of attorney to it to act as the administrator of the investment and the investment  
8 proceeds. Some of the money for the scheme went through the NETGO bank account.

9 10. SDIC, LEWIS, MILLER, NETGO, MCIL and M-CORP. continued to raise money  
10 from investors. Between December 15, 1997 and April 13, 1998, RESPONDENTS raised  
11 \$1,659,000 from investors, many of whom were members of IMA or referred by other IMA  
12 members. That sum was deposited in SDIC and NETGO bank accounts, and then wired to a M-  
13 CORP. bank account in Texas. From that account, the funds were wired to a foreign bank account.

14 11. On April 13, 1998, SDIC and LEWIS entered into an Amendment to the Private  
15 Placement Agreement with MCIL, with MILLER signing as the "Registered Agent" of MCIL,  
16 acknowledging that SDIC had now put \$2,159,000 into the program.

17 12. Investors then received materials from RESPONDENTS and signed an agreement,  
18 amending their previous agreement described *supra*, that stated:

19 "The sole business objective of the Agreement [with MCIL] is the investment of  
20 funds into a high yield trading program involving the trading of instruments of  
21 U.S. Government Security. The Security is a 90-day Treasury Bill that will be for  
22 the principal amount of the funds, plus twenty-percent (20%)." The agreement  
23 went on to state, "Participant shall be entitled, on a best efforts basis, to receive a  
24 projected profit yield based on the [amount] invested which will be utilized with  
25 the other S.D.I.C. Partnership funds to purchase 90-day U.S. Treasuries as  
26 follows:

1           Each transaction (contract) shall be for 120% of the principal amount in 90-  
2           day Treasury Bills, which will be immediately liquidated on a discount yield to  
3           maturity basis for 96.5%. 50% of the profit yield will be retained by S.D.I.C.  
4           Partnership and utilized along with the principal into another contract. The profit  
5           yields and principal will be compounded into approximately 40 contracts over a  
6           12-month period. (NOTE: the other 50% will go to the Facilitator/Program.)”

7           13.     RESPONDENTS sent out weekly updates to program members, informing them  
8           that they were receiving a return of 9.67% per contract. Each contract lasted one week according  
9           to the reports to investors. RESPONDENTS stated that the investment was receiving an  
10          annualized return of over 500% per annum.

11          14.     In December 1998, RESPONDENTS proposed that the investors exchange their  
12          partnership interests in SDIC to stock interests in CAMELBACK. Investors were told that to  
13          remain with the program they had to become a CAMELBACK stockholder, otherwise their  
14          principal would be returned to them. The investors were also told that the \$2,159,000 invested in  
15          SDIC was now worth over \$96,000,000. That information was false. All investors then agreed  
16          that their partnership interests in SDIC would be exchanged for stock in CAMELBACK.

17          15.     According to LEWIS, all communication of the program came through MILLER,  
18          including the location of the funds, allegedly somewhere in Europe, the bank involved, which  
19          LEWIS claimed was unknown by him, and the returns. RESPONDENTS in turn disseminated this  
20          information to the investors. According to the information that RESPONDENTS have  
21          disseminated, the investors have received astronomical returns. No investor has received any  
22          documentation sufficient to independently verify the returns actually exist. No trading market for  
23          discounted debt instruments from major banks that generated very high profits with no risk to the  
24          investor exists.

25          16.     In 2001, LEWIS filed a lawsuit against MILLER. Subsequent to the lawsuit, he  
26          solicited funds from the investors, ostensibly to fund the lawsuit. Upon information and belief, he

1 informed investors that those investors who provided him with those additional funds would  
2 receive priority in any recovery from the investment and/or the lawsuit. Since this action was filed,  
3 the MILLER RESPONDENTS have paid \$3,000,000 to be distributed to the investors.

4 17. MILLER was convicted in Texas in 1991 of securities fraud and theft. He did not  
5 inform investors of his criminal record.

6  
7 **II.**

8 **CONCLUSIONS OF LAW**

9 1. The Commission has jurisdiction over this matter pursuant to Article XV of the  
10 Arizona Constitution and the Securities Act.

11 2. MCIL offered or sold securities within or from Arizona, within the meaning of  
12 A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).

13 3. MCIL violated A.R.S. § 44-1841 by offering or selling securities that were neither  
14 registered nor exempt from registration.

15 4. MCIL violated A.R.S. § 44-1842 by offering or selling securities while neither  
16 registered as dealers or salesmen nor exempt from registration.

17 5. MCIL violated A.R.S. § 44-1991 by offering or selling securities within or from  
18 Arizona by (a) employing a device, scheme or artifice to defraud, (b) making untrue statements or  
19 misleading omissions of material facts, and (c) engaging in transactions, practices or courses of  
20 business which operate or would operate as a fraud or deceit.

21 6. MCIL's conducts is grounds for a cease and desist order pursuant to A.R.S. § 44-  
22 2032.

23 7. MCIL's conduct is grounds for an order of restitution pursuant to A.R.S. § 44-2032.

24 8. MCIL's conduct is grounds for administrative penalties under A.R.S. § 44-2036.

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III.

ORDER

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3 THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, the Commission  
4 finds that the following relief is appropriate, in the public interest, and necessary for the protection  
5 of investors:

6 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that MCIL, its agents, employees,  
7 successors and assigns, permanently cease and desist from violating the Securities Act.

8 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that \$3,000,000 in restitution  
9 having been paid to investors, MCIL, shall, jointly and severally with all other Respondents in this  
10 action against whom an Order is issued, pay remaining restitution to investors shown on the  
11 records of the Commission. Payment shall be made in the amount of \$250,000 to investors pro  
12 rata on March 26, 2003, and each anniversary of March 26, commencing on March 26, 2004, until  
13 either all investors are paid all principal and interest accrued at the rate of ten percent per annum  
14 on their investment or until investors have received total payments of \$4,500,000.

15 Payment shall be made to the trust fund of David T. Bonfiglio, to be distributed by that  
16 attorney to the investors. MILLER, M-Corp or MCIL shall provide evidence of payment to the  
17 Commission within 24 hours of transmittal of payment to the trust fund of David T. Bonfiglio. In  
18 the event any required payment is not received by David T. Bonfiglio within five business days of  
19 the date due, any outstanding balance of principal and accrued interest may be deemed in default  
20 and shall be immediately due and payable to the state of Arizona.

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26 ..

1 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that MCIL, jointly and  
2 severally with M-Corp and MILLER, shall pay an administrative penalty in the amount of  
3 \$30,000, payable to the "State of Arizona." Payment shall be made in full by cashier's check or  
4 money order on the date of this Order. Any amount outstanding shall accrue interest at the rate of  
5 10% per annum from the date of this Order until paid in full.

6 IT IS FURTHER ORDERED that this Order shall become effective immediately.

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

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9  
10 CHAIRMAN

COMMISSIONER

COMMISSIONER

11 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,  
12 Executive Secretary of the Arizona Corporation  
13 Commission, have hereunto set my hand and caused the  
14 official seal of the Commission to be affixed at the  
15 Capitol, in the City of Phoenix, this \_\_\_\_\_ day of  
16 \_\_\_\_\_, 2002.

17 \_\_\_\_\_  
18 BRIAN C. McNEIL  
19 Executive Secretary

20  
21 \_\_\_\_\_  
22 DISSENT

23 This document is available in alternative formats by contacting Shelly M. Hood, Executive  
24 Assistant to the Executive Secretary, voice phone number 602-542-3931, E-mail  
25 [shood@cc.state.az.us](mailto:shood@cc.state.az.us).

26 (md)