

M&L investment fraud case keeps getting bigger

By Janet Day
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Investigators peeling back the layers of what appeared to be a simple company bankruptcy in Westminster have uncovered what they suspect is one of the nation's largest investment fraud schemes.

The investigation of M&L Business Machine Co., Inc. "is definitely a multi-state, national problem. It is much bigger than just the bankruptcy," said Christine Jobin, the Denver attorney appointed as trustee to manage the case.

The amount of money reportedly lost by investing in M&L, and the number of people who lost it, keep climbing.

Investigators originally thought the losses totaled \$12 million but now say the number could exceed \$20 million. Company officials have listed 250

investors around the country who are owed money, but investigators say the number could more than double before all the facts are known.



Peterson

Little about M&L was as it seemed.

On paper, the firm looked like a great investment. With a 15-year history in Colorado, a warehouse full of what appeared to be brand new, factory-sealed boxes of computer equipment, and claims of rapid growth detailed in apparently audited financial reports, M&L looked safe and profitable.

Promises of amazingly high interest rates and tales of earlier investors who profited handsomely made M&L's offer to "private sector secondary lenders" too good to pass up.

"This was just another case of greed and dashed dreams," said one state investigator involved in the case.

The firm's inventory consisted of bricks and dirt, according to Jobin. Its financial statements could not be verified and even the educational background of the company president was exaggerated, said Robert Peterson, a private financial investigator hired by Capitol Federal Savings to look into M&L.

And company president Robert G. Joseph repeatedly cashed checks worth hundreds of thousands of dollars that M&L's checkbooks claim were made out to computer manufacturers, according to Colorado Division of Securities investigator Paul Hurtado.

The inventory and financial

statements used to solicit private investors also were used to secure bank loans, including a \$6 million loan from failed Capitol Federal of Aurora, according to bankruptcy court documents. M&L last year defaulted on that loan.

M&L's investment program reportedly operated successfully for seven years under the guidance of Joseph, the flashy former Northglenn police officer who bought the company in 1982. He ran the operation with Daniel F. Hatch and David Parrish, both of Boulder.

Repeated efforts to talk to M&L officers in the past two weeks were unsuccessful. Phones at M&L have been disconnected. Telephone calls to Hatch's home and Parrish's psychiatric office went unanswered. Joseph, when contacted, said, "I have no comment at this time."

Joseph, 45, is described by investigators as a charismatic figure who easily won people's trust. He dresses in black and wears a lot of gold jewelry, included a diamond-studded Rolex watch, investigators said. He owns a \$380,000 house near Brighton, a motor home, several motorcycles and at least five cars, his financial documents show.

"He is super flamboyant," Peterson said.

Joseph was the driving force behind the investment scheme, but Hatch held the purse strings, including control of all the company's books, customer lists, loan information, computer disks and checkbooks, documents filed by the state securities division show.

The FBI, U.S. attorney's office, U.S. trustee's office of the U.S. Bankruptcy Court in Denver, Colorado Division of Securities and the Resolution Trust Corp., which has taken over Capitol Federal, are investigating the operation as a possible Ponzi fraud scheme.

Such schemes set up a dummy company or take over a marginal existing company and market it as an investment opportunity with extremely high rates of return. Early investors are paid with money from later investors while scheme operators take some money for themselves. The schemes can run for several years until they start to fall apart or the operators disappear.

"This could be a huge scam, one of the biggest Ponzi schemes this country's seen," Peterson said.

Interviews with investigators from various agencies and M&L investors around the country, plus a review of documents gathered by investigators or filed in state and federal courts, detail a variety of allegedly fraudulent activities by M&L, including:

- Claiming dozens of major computer manufacturers and other large companies owed hundreds of thousands of dollars each to M&L for computer equipment. Representatives of those companies have reported they never did business with M&L, Peterson's report to Capitol Federal said.

- Cashing checks that were supposed to be made out to computer manufacturers, according to the securities division investigator Hurtado.

- Presenting financial documents as audited by an accountant who has not worked in Colorado in three years. The accountant, Jonathan Williams now lives in Florida and said in a bankruptcy court deposition that he did not give M&L permission to use his stationery or signature.

- Failing to turn over to Jobin nearly \$1 million in cash collected from recent investors in M&L. Joseph's excuses for not providing the money have varied, Jobin said.

M&L's investment program began to unravel in mid-1990 when the state division of securities discovered that M&L was offering high-interest-rate investments to private investors. M&L was not registered with the state to offer securities, said Securities Commissioner Phil Feigen.

Pressure on M&L increased late last year with efforts by Capitol Federal to verify the company's inventory used as security for the \$6 million loan. The Aurora thrift was declared insolvent in March 1990.

Joseph's apparent resistance to the thrift's efforts to inspect M&L's inventory led the institution to hire Peterson in September. Just two days into his investigation, Peterson knew something

was wrong, he said. Accounts couldn't be verified and statements by company representatives contradicted each other, he reported to Capitol Federal.

M&L sought refuge by filing for protection from creditors under Chapter 11 of the federal bankruptcy code on Oct. 1. But that filing simply broadened the investigation into the company's dealings.

On Dec. 18, a Denver bankruptcy judge appointed Jobin trustee to run the company. Repeatedly frustrated in her efforts to assess the company's assets, she eventually gained a court order to inspect the inventory.