

ALABAMA SECURITIES COMMISSION

Post Office Box 304700

Montgomery, Alabama 36130-4700

Telephone: (334) 242-2984 or 1-800-222-1253 Fax: (334) 242-0240

Email: asc@asc.alabama.gov Website: www.asc.alabama.gov

INVESTOR ALERT: Beware of Investment Scams Spawned From Disasters

MONTGOMERY, ALABAMA (May 13, 2011) In the aftermath of devastation caused by recent earthquakes in Japan, extensive flooding in the Mississippi River valley, prolonged drought and wildfires in Texas and the historic tornado damage in Alabama, The Alabama Securities Commission (ASC) today warned investors to beware of disaster-related investment scams associated with these and other events.

ASC Director, Joseph Borg said, "Investment scams often seek to capitalize on the media spotlight surrounding these destructive events. Alabamians must be vigilant, as con artists are more prevalent during times of crisis, seeking to use illicit schemes to capitalize on the suffering of others." Borg urged citizens to help alert the Commission to questionable investment offers related to disaster relief efforts and help protect themselves from disaster-related investment fraud by contacting the ASC to verify the registration status of anyone offering an investment opportunity or product. "If the person offering an investment opportunity is not registered with the Commission, the prudent course would be to steer clear," Borg said. "By checking out any investment opportunity with ASC, citizens can alert us and other authorities of possible inappropriate or fraudulent investment practices, thus protecting themselves and others from being financially exploited."

Here are some examples of investment scams developed and marketed in conjunction with disasters. ASC hopes you will be able to identify current investment scams by learning about past scams surrounding disasters:

In the wake of Hurricane Katrina in 2005, investors were alerted to be aware of faxes or emails touting stocks that would realize large gains as a result of the devastation wrought by Katrina. One fax claimed that Katrina's devastation would lead to a "massive run-up" in the company's stock "as demand to repair homes skyrockets." Citing the enormous cleanup costs associated with Katrina, the fax stated, "So you see, any company that gets a tiny slice-even one percent-of this business could add a minimum of \$260 million to its bottom line." The fax went on to urge investors to act quickly because the stock was undervalued. Now, Alabama investors can expect unsolicited faxes and spam about investments that exploit a variety of tornado-related opportunities. These include scams involving stock offerings related to debris cleanup/removal and rebuilding. While it is conceivable that some claims being made may be true, many could be bogus or outright illegal.

Investors should beware of anyone seeking to sell promissory notes to raise capital to purchase equipment in support of large cleanup, construction and development contracts in central and north Alabama that experienced tornado destruction. Con artists could lead potential investors to believe that they have exclusive rights to government-subsidized disaster-relief and construction contracts in storm-ravaged areas and that promissory notes being offered will yield high returns for investors. Borg cautioned that promises of unreasonably high returns may be the tell-tale signs that a "Ponzi" scheme is taking place, wherein returns paid come from new investors and not from profits derived from legitimate construction projects.

Following the widespread destruction of Hurricane Katrina, con artists operating along the Gulf Coast attempted to entice citizens to invest in "devalued" land schemes. Con artists in Alabama would promote the purchase of tracts of land in Coastal Mississippi that had experienced the destruction of dwellings or businesses, and that they claimed had been devalued and could be purchased cheaply. Using the same approach, the con artists would attempt to promote the same scam to investors in Mississippi. No such programs existed in either state and scammers swindled many investors out of thousands of dollars. Borg cautioned Alabama investors to be extremely skeptical of such land promotions in tornado-ravaged areas of the state.

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Borg also warned of illicit offers to invest in unproven, technology-driven efforts or products claiming to mitigate oil, gasoline and hazardous material removal/disposal from stricken areas. ASC has previously issued Cease and Desist Orders to companies offering or selling shares of company stock, seeking funds for hazardous materials cleanup along the Gulf Coast in the aftermath of the Gulf oil spill. One such company, InfrAegis, Inc., of Elk Grove Village, Illinois, in 2010 offered shares of company stock to Alabama Gulf Coast investors based on their claim to be able to offer products that the company said would alleviate environmental damage caused by the oil spill. An ASC investigation revealed that the company was not registered with the Commission to be able to conduct securities business in Alabama; and, that the State of Illinois had previously issued an administrative order against the company alleging similar securities law violations in that state. Borg urged investors to ignore offers from unrecognized and unverified companies claiming to be experts in disaster relief and any solicitation for money based on guarantees of unrealistic returns.

Investment scams based on products to combat medical crises are also prevalent during stress-filled disaster situations. Borg cited public concerns over chemical or biological terrorism. After anthrax-tainted letters killed five people in 2001, several companies claimed to have developed a new anthrax vaccine. One company promoted a handheld device that purportedly wiped out anthrax germs in seconds. The company's stock soared briefly, only to plummet after federal prosecutors said the venture was a stock manipulation scam.

On an international scale, scammers have sought to use the earthquake, tsunami and ensuing nuclear crisis in Japan to their advantage--at the expense of unsuspecting investors around the world. Borg cited a recent alert from the Financial Industry Regulatory Authority (FINRA) warning investors about "pump-and-dump" stock scams seeking to capitalize on the disasters in Japan by linking their products and services to efforts ranging from detection of gamma rays, to cleanup of nuclear waste and the development of earthquake-resistant structures. Borg noted that con artists often lure investors with aggressive but potentially misleading or false claims that create increased demand for shares of small, thinly-traded companies that do not have sufficient manufacturing capabilities or scientific expertise to support their claims. Once new investors drive up the cost of company shares, the con artists behind the scam quickly sell off their shares, leaving investors with worthless stock.

"Disasters, the magnitude of which have been experienced globally and at home in Alabama, bring out the very best in the human spirit," Borg said. "The Alabama Securities Commission, together with our law enforcement authority partners, want to help keep that spirit alive and well for the safety and comfort of our citizens. We will strive to make certain that those who would take unfair advantage of disaster victims in their time of greatest need will be held accountable to the fullest extent of the law."

The ASC cautions potential investors to thoroughly scrutinize and research any investment opportunity or offer. Contact the ASC with inquiries concerning securities broker-dealers, agents, investment advisers, investment adviser representatives, financial planners, registration status of securities or debt management programs, to report suspected fraud or to obtain consumer information. The ASC provides free investor education and fraud prevention materials in print, on our website and through educational presentations upon request.

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For further information contact Dan Lord, Education and Public Affairs Manager, 334-353-4858.

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