

# Lou Pearlman Agents Tricked Many

Contributed by Lou Pearlman Writer  
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Eight continued to hold Florida insurance licenses despite roles in dubious deals.

By Helen Huntley, Times Personal Finance Editor  
Published August 12, 2007

Music producer Lou Pearlman had plenty of sales help reeling in more than \$300-million of investor money that went missing with the collapse of his empire.

A network of agents wooed investors on his behalf with promises of generous yields and absolute safety that turned out to be too good to be true. For some of them, the story line should have had a familiar ring.

Before they raised money for Pearlman, the agents hawked a variety of other investment schemes, including fraudulent pay phone deals, viaticals buying stakes in people's life insurance policies and promissory notes. At least 10 of the agents who sold Pearlman's investments in west central Florida previously were cited by the state for sale of unregistered securities.

Even more troubling is that nine of those 10 were state-licensed insurance agents. In spite of their dubious track records, only one had his insurance license suspended and later chose not to renew it. Eight continued to hold Florida insurance licenses, allowing them to offer Pearlman's fraudulent offering alongside legitimate investments, which gave it an aura of respectability. (A list of the agents and state actions against them can be found at [blogs.tampabay.com/money](http://blogs.tampabay.com/money))

Two of those agents with checkered backgrounds teamed up to rank among Pearlman's top fundraisers the past two years. Steven Rodd and William Kress, licensed to sell insurance and variable annuities since 1991, sold Pearlman's Trans Continental investment through Churchill Financial Group of Clearwater.

Before that, Rodd, 41, was an agent for at least six fraudulent schemes, one of which resulted in him being barred from the securities industry. Kress, 51, also sold at least two of the phony investments.

"I don't understand how they get away with it," said one-time Kress client Joe Sierotowicz of Summerfield. "It's brought to light and nobody does anything about it." He said Kress convinced him, his wife and brother-in-law to invest \$56,000 in a pay phone scam eight years ago.

Kress was a big seller of ETS Payphones, a Ponzi scheme that raised more than \$300-million from investors nationwide, only about \$2-million of which was repaid.

The state Office of Financial Regulation fined Kress \$33,000 in 2001 for selling viaticals in American Benefits Services, another scam.

Rodd was an agent for two pay phone frauds, LinkTel Communications and ETS Payphones; two viatical frauds, Mutual Benefits Corp. and American Benefits Services; and two promissory note schemes, FLIC and GFI.

He caught the attention of the Securities and Exchange Commission in 1999 for his involvement with LinkTel, which promised investors returns of 12 to 14 percent and paid him commissions of 20 to 22 percent.

The SEC said he lied to investors about LinkTel, claiming it had a long history of good profits and that he had fully investigated the company when he had not even reviewed the financial statements. Investors only recovered about 10 percent of their money and the SEC barred Rodd from association with any broker.

One of Rodd's most lucrative ventures was selling viatical investments with Mutual Benefits Corp. He took in nearly \$1-million in commissions, according to a receiver appointed to take over Mutual Benefits after the government shut it down three years ago.

Many of the principals in the scam investments Kress and Rodd sold have been sent to prison. However, no criminal charges were filed against either of them.

The state of Florida charged Rodd with selling unregistered securities three times from 1997 to 2001, and in 2003 ordered a five-year ban on any license being issued to him through the Office of Financial Regulation, which licenses securities and mortgage brokers, consumer finance companies and other financial institutions.

However, insurance agents are regulated by a different state agency, the Florida Department of Financial Services, and

the department has never taken disciplinary action against Rodd or Kress.

Spokeswoman Nina Bannister noted said it wasn't until 2001 that the law was changed to make sale of unregistered securities grounds for an agent's license to be suspended or revoked. Since then, she said, the department has taken action against 31 agents accused of unregistered securities sales.

In spite of their commissions, Rodd and Kress ended up in bankruptcy claiming they were broke. Rodd, who lives in Tampa, filed in 2001 and Kress, who lives in Largo, filed in 2005. Kress, who included a list of pay phone investors as creditors, said his gross income was just \$1,000 a month.

Kress and Rodd previously sold investments under other company names (Karlovec Financial for Kress and Oxford Financial for Rodd). They teamed up under the Churchill name by 2005. Although Kress said Churchill had no assets, it had big ambitions.

The men rented two rooms in a glass-walled office building that offers "executive suites" on a month-to-month basis, starting at about \$360 a month. The arrangement, which included a shared receptionist, gave them an address on busy U.S. 19 in the Countryside area. And if elderly investors couldn't come to them, they made house calls.

Some investors were impressed.

"They were two nice guys, very professional," said investor Lloyd Carroll of Madeira Beach.

Churchill generated business by advertising high-yielding CDs on radio and in newspapers, including the St. Petersburg Times. Customers who came in looking for a CD typically got a sales pitch for an annuity followed by one for the "Employee Investment Savings Account" offered by Pearlman's Trans Continental Airlines.

With a 6.08 percent yield - bumped up to 7.08 percent last fall - the Trans Continental account looked great compared to the low rates banks were offering. And all the paperwork claimed -falsely - it was FDIC insured, appealing to conservative retirees, many of whom handed over their life savings.

Kress and Rodd also had a few special sales techniques to convince investors it was a great deal.

"Bill told me when I signed up in July 2005 that he also had money invested in this program," Carroll said, a pitch other investors also recalled.

But if Kress was an investor, he failed to mention it when he reported to the bankruptcy court the previous month that his only financial asset was \$100 in a checking account.

Kress and Rodd repeatedly told investors they weren't making any commission. "He absolutely swore that they were not getting any commission off it," said Clearwater investor John Leritz, who dealt with Rodd.

St. Petersburg investor Monty Montgomery said he specifically asked Kress if he got a commission: "He told me 'no, we just do this as a service for our customers and hope you'll be so satisfied with our service that you'll take out annuities with us.' "

But Trans Continental paid commissions, which varied from agent to agent. In a deposition for a lawsuit, one agent testified her commission was 8 percent.

Kress and Rodd tailored their pitches to the investor.

Clearwater investor Leritz said Rodd told him Trans Continental was "owned by a multi-multi millionaire by the name of Lou Pearlman, one of the richest and most successful businessmen in Florida ... worth over \$500-million." He said Rodd told him Pearlman owned the rights to \*NSYNC and the Backstreet Boys, two of the boy pop music bands he developed.

As Pearlman's scheme began collapsing at the end of last year, Kress and Rodd repeatedly assured investors their money was safe.

Since then they have closed their office and disconnected their telephones. Kress' attorney said he had no comment, while Rodd did not respond to a written request for comment sent to his homes.

They have not defended themselves against the eight investor lawsuits filed against them, three of which have led to default judgments.

Pearlman is in an Orlando jail awaiting trial on federal fraud bank charges. Federal investigators recently mailed questionnaires to investors asking them about their dealings with agents and state officials are looking at the agents. No

civil or criminal charges have been filed against any of them.

Helen Huntley can be reached at [hhuntley@sptimes.com](mailto:hhuntley@sptimes.com) or (727) 893-8230. Read more about Lou Pearlman's Trans Continental investment scheme at [blogs.tampabay.com/money](http://blogs.tampabay.com/money) .

#### What you should know

Some tips on staying out of trouble when dealing with an investment adviser:

- Buy your investments from a bank, mutual fund company or registered broker. Most insurance agents are only qualified to sell insurance-related investments.
- Stay away from advisers with a history of problems. Learn if they are registered and check the track records of those who are at the BrokerCheck link on the Financial Industry Regulatory Authority Web site ([www.finra.org](http://www.finra.org)). Or call the Florida Office of Financial Regulation toll-free at 1-800-848-3792.
- Stick with investments you understand. Mutual funds, money markets and CDs are best for less sophisticated investors.
- If you want CDs, buy them directly from a bank or credit union rather than through a broker. You can check rates online at [www.bankrate.com](http://www.bankrate.com).
- Watch out for investments with high yields that are touted as "safe," "guaranteed" or "insured." And be suspicious of insider opportunities. If it sounds too good to be true, it probably is.

#### Trans Continental saga catches Cabinet's eye

The Trans Continental investment scam revealed a serious weakness in the way Florida regulates insurance agents, Chief Financial Officer Alex Sink said Friday.

"Our laws are written as if we're back in the old days when insurance agents sold insurance and brokers sold securities," she said. "They're all basically financial services providers."

Sink heads the Department of Financial Services, which regulates insurance agents, and is one of four Cabinet members with jurisdiction over the Office of Financial Regulation, which regulates brokers and securities sales.

Sink will review oversight issues as she works on next spring's legislative proposals.

"My role and mission is to safeguard our citizens' money and their assets," she said. "Clearly we've got a situation that's been exposed in a very unfortunate way in which our citizens' assets were not protected. It's incumbent upon all of us to go back and try to figure out what went wrong, why it went wrong and is there anything we could have done as a governmental authority to have avoided it."  
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- Stick with investments you understand. Mutual funds, money markets and CDs are best for less sophisticated investors.
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