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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

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3/18/03
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SECURITIES AND EXCHANGE COMMISSION

Plaintiff,

v.

LOUIS M. LAZORWITZ, J. CHARLES REIVES,
and TRI-STAR INVESTMENT GROUP, L.L.C.
A/K/A TRI-STAR INVESTMENT GROUP,

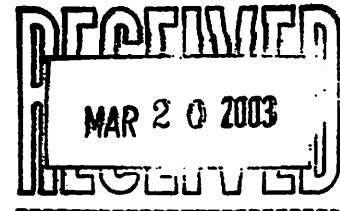
Defendants,

And

LAZOR, LTD.,

Relief Defendant.

Civil Action File No.
1:02-CV-0112-HTW



FINAL JUDGMENT OF PERMANENT INJUNCTION, DISGORGEMENT,
PREJUDGMENT INTEREST AND CIVIL PENALTIES AGAINST THE
DEFENDANTS, AND FINAL JUDGMENT OF DISGORGMENT AGAINST THE
RELIEF DEFENDANT

This matter is before the Court on the motion of the Securities and Exchange Commission ("Commission" or "SEC") to set the amounts of disgorgement, prejudgment interest and civil penalties as to the three defendants and to set disgorgement against the relief defendant.¹ Each of the defendants has previously been permanently enjoined by orders of the Court. In the Order of Permanent Injunction

Resolution of these issues will complete this matter. It is therefore appropriate that this Order be in the form of a Final Judgment.

entered in this matter on May 6, 2002 (to which defendant Lazorwitz consented), the Court specifically held that Lazorwitz shall pay disgorgement, pre-judgment interest and a civil penalty in amounts to be resolved upon motion of the Commission at a later date. For purposes of disgorgement, pre-judgment interest and the civil penalty, the allegations of the Commission's complaint were deemed to be true. Furthermore, that Order provides that Lazorwitz may not, by way of defense, contend disgorgement, pre-judgment interest and a civil penalty should not be imposed. The same terms were imposed against defendants Tri-Star and Reives in similar Orders of Permanent Injunction entered on May 6, 2002 and August 7, 2002, respectively. Identical terms as to disgorgement were ordered against relief defendant Lazor, Ltd. in the Court's Order of Disgorgement against it entered May 6, 2002.²

In conjunction with the Commission's motion to set disgorgement, prejudgment interest and civil penalties in this matter, the SEC has submitted the Declaration of William A. Rees, an employee of the SEC. The Rees Declaration sets forth, in summary fashion, the evidence regarding the investments raised by the defendants, the

² In the same manner that Lazorwitz consented to the order against him, Reives, Tri-Star and Lazor, Ltd. all consented to the entry of the respective orders against them.

investor funds retained by the defendants, and the investor funds received by the relief defendant, as a result of the defendants' operation of the Tri-Star investment scheme. The SEC has also submitted the transcripts of Lazorwitz's September 19, 2002 sworn deposition and Peives' October 31, 2002 deposition in which the defendants testified to the scope of the scheme, the flow of investors' funds into various accounts and the transfer of investors' funds into offshore accounts located in The Bahamas.

Based upon all of the evidence before the Court and the motion and brief of the SEC, the defendants sold Tri-Star securities to over 900 investors in at least 35 states, and raised in excess of \$15 million from investors. The Defendants, directly or indirectly, cumulatively deposited, caused to be deposited, or caused to be transferred, in excess of \$15 million of Tri-Star investor funds into various Bank of America bank accounts established in Georgia, North Carolina and Texas. Thereafter, Tri-Star and related entities controlled by the Defendants transferred in excess of \$12 million of the deposited and/or transferred Tri-Star investor funds to The Bahamas. Tri-Star used a portion of these funds to pay purported profits to investors and commissions to Tri-Star salespersons. The Defendants have not however accounted,

in any manner, for the disposition of the Tri-Star investor funds sent to The Bahamas.

The Defendants also received the personal benefit of substantial investor funds, and used investor funds to pay alleged operating expenses that were not legitimate expenses. Among other things, one or more of the Defendants used investor funds, directly or indirectly, to pay alleged salaries to Lazorwitz and Reives; maintain three offices (one of which was the personal residence of Defendant Reives); pay for presentations to investors; pay for an extravagant meeting for Tri-Star salespersons at a Georgia resort; pay for international travel; buy stock ownership interests in other companies for personal benefit; and repay persons who were investors in at least one other fraudulent securities offering that Lazorwitz and Reives participated in.

As to relief defendant Lazor, Ltd., it received ill-gotten assets from the Tri-Star fraud derived from at least \$660,000 in investor funds, without any legitimate claim to the assets. Among other things, the relief defendant obtained over \$10,000 in investor funds that were deposited or transferred into a Bank of America bank account in the name of the relief defendant or otherwise used in connection with the relief defendant. At least some of the

funds were used to operate Lazorwitz's business called "Midnight Resources," which provided an interactive Internet website featuring pornographic-type adult entertainment. Lazorwitz and Reives purchased luxury automobiles using more than \$300,000 of investor funds, for use by Lazorwitz, Reives, and two women. The automobiles were titled in the name of the relief defendant. The relief defendant obtained ownership interests in other companies purchased with more than \$350,000 of investor funds, including stock in two privately held Texas companies that was issued in the name of the relief defendant, rather than Tri-Star.

IT IS HEREBY ORDERED that defendants Lazorwitz, Reives and Tri-Star jointly and severally pay disgorgement in the amount of \$15 million to the registry of the Court not later than 30 days from the entry of this Order.

Prejudgment interest is appropriate on disgorgement in the principal amount of \$15 million. Prejudgment interest shall accrue at the rate used by the Internal Revenue Service for unpaid collections from October 1, 1999 through the date of the entry of this Order. **IT IS HEREBY ORDERED** that defendants Lazorwitz, Reives and Tri-Star shall jointly and severally pay all prejudgment interest on the principal

amount of \$15 million within 30 days from the entry of this Order.

The SEC also seeks a "third tier" civil penalty in this matter against each of the three defendants. The defendants' violations meet the statutory requirements for the imposition of a penalty classified as a "third tier" penalty in that they involved fraud, deceit, manipulation or deliberate or reckless disregard of a regulatory requirement and that the violations directly or indirectly resulted in substantial losses or created a significant risk of substantial losses to other persons. See § 20(d) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. 77t(d)] and § 21(d)(3) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. 78u(d)].³

Tri-Star, Lazorwitz and Reives knew or were reckless in not knowing that they made misrepresentations and omissions of material fact to investors about the Tri-Star investment scheme. Among other things, they: 1) misrepresented the investment risks by falsely stating in Tri-Star investor applications that blocks of \$1 million would be collateralized by an insured Bank Certificate of Deposit

³ As to defendants Lazorwitz and Reives, the Court also relies upon the statutory authority contained in Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 ("Advisers Act").

issued to Tri-Star; 2) failed to disclose to investors that Tri-Star never earned significant profits and that Tri-Star had no reasonable basis to project profits of 20% per month over 13 months, after a 90-day waiting period, as represented to investors; 3) issued false account statements investors showing that they earned "interest" of 20% per month on their investments; 4) failed to disclose to investors that Tri-Star used investor funds to pay alleged profits to investors and commissions to salespersons; and 5) misappropriated and/or misused investor funds for the personal benefit of Lazorwitz and Reives. Given all factors, the Court concludes that "third tier" civil penalties are appropriate in this matter. Lazorwitz's, Reives' and Tri-Star's conduct involved fraud, deceit, manipulation or deliberate or reckless disregard of a regulatory requirement and the violations directly or indirectly resulted in substantial losses or created a significant risk of substantial losses to other persons.

IT IS HEREBY ORDERED that Lazorwitz pay a civil penalty in the amount of \$110,000, that Reives pay a civil penalty in the amount of \$110,000, and that Tri-Star pay a civil penalty in the amount of \$550,000. Each of these civil penalties shall be paid to the registry of this Court within 30 days from the entry of this Order.

The Court has previously imposed Orders of Permanent Injunction against defendants Lazorwitz, Reives and Tri-Star. As part of the Final Judgment against the defendants, the injunctive relief previously imposed is again set forth as follows:

IT IS HEREBY ORDERED, ADJUDGED AND DECREED that defendants Lazorwitz, Reives and Tri-Star and their agents, servants, employees and attorneys, and those persons in active concert or participation with them who receive actual notice of this Final Judgment of Permanent Injunction, by personal service or otherwise, and each of them, be and hereby are permanently enjoined and restrained from violating, directly or indirectly, Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. 77q(a)], by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, by:

1. employing any device, scheme or artifice to defraud;
2. obtaining money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light

of the circumstances under which they were made,
not misleading; or

3. engaging in any transaction, practice, or course
of business which operates or would operate as a
fraud or deceit upon the purchaser,
in the offer or sale of any security.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that
defendants Lazorwitz, Reives and Tri-Star and their agents,
servants, employees and attorneys, and those persons in
active concert or participation with them who receive actual
notice of this Final Judgment of Permanent Injunction, by
personal service or otherwise, and each of them, be and
hereby are permanently enjoined and restrained from
violating, directly or indirectly, Section 10(b) of the
Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C.
78j(b)] and Rule 10b-5 thereunder [17 C.F.R. 240.10b-5], by
the use of any means or instrumentality of interstate
commerce or of the mails or of any facility of any national
securities exchange, by:

1. employing any device, scheme or artifice to
defraud;
2. making any untrue statement of a material fact or
omitting to state a material fact necessary in
order to make the statements made, in the light of
the circumstances under which they were made, not
misleading; or

3. engaging in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that defendants Lazorwitz and Reives, and their agents, servants, employees, and attorneys, and those persons in active concert or participation with them who receive actual notice of this Final Judgment of Permanent Injunction, by personal service or otherwise, and each of them, be and hereby are permanently enjoined and restrained from violating, directly or indirectly, Sections 206(1) and 206(2) of the Investment Advisers Act [15 U.S.C. 80b-6(1) and 80b-6(2)] by:

1. acting as an investment adviser, by use of the mails and the means and instrumentalities of interstate commerce, directly or indirectly, employing devices, schemes, and artifices to defraud one or more advisory clients and/or prospective clients; or
2. acting as an investment adviser, by use of the mails and the means and instrumentalities of interstate commerce, directly or indirectly, engaging in transactions, practices and courses of business which operate as a fraud or deceit on one or more advisory clients and/or prospective clients.

IT IS FURTHER ORDERED, that defendants Lazorwitz, Reives and Tri-Star and their agents, servants, employees, attorneys and those persons in active concert or participation with them, who receive actual notice of the Final Judgment of Permanent Injunction, by personal service, facsimile or otherwise, and each of them, by use of the mails or any means or instrumentality of interstate commerce, are permanently restrained from directly or indirectly:

(a) making use of any means or instruments of transportation or communication in interstate commerce or of the mails to sell securities, in the form of common stock or any other security, through the use or medium of any prospectus or otherwise, unless and until a registration statement is in effect with the Commission as to such securities;

(b) carrying securities, or causing them to be carried through the mails or in interstate commerce, by any means or instruments of transportation, for the purpose of sale or delivery after sale, unless and until a registration statement is in effect with the Commission as to such securities;

(c) making use of any means or instruments of transportation or communication in interstate commerce or

of the mails to offer to sell or offer to buy, through the use or medium of any prospectus or otherwise, any interest in securities, in the form of common stock or any other security;

unless a registration statement is filed with the Commission as to such securities, or while a statement is filed with the Commission as to such security is the subject of a refusal order or stop order or (prior to the effective date of the registration statement) any public proceeding or examination under section 8 of the Securities Act. [15 U.S.C. 77h];

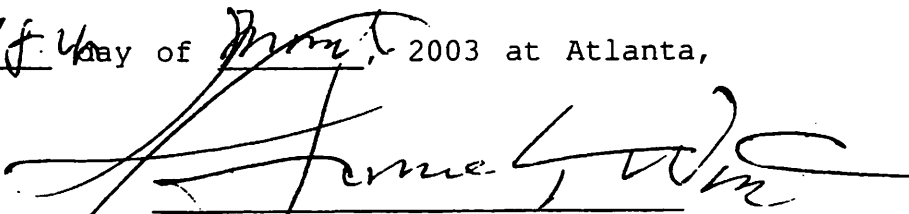
in violation of section 5 of the Securities Act. [15 U.S.C. 77e].

IT IS FURTHER ORDERED, that defendants Lazorwitz and Reives, their agents, servants, employees, attorneys and those persons in active concert or participation with them, who receive actual notice of this Final Judgement of Permanent Injunction, by personal service, facsimile or otherwise, and each of them, by use of the mails or any means or instrumentality of interstate commerce, are permanently restrained from directly or indirectly: (i) from engaging in the business of effecting transactions in securities for the account of others; (ii) from being

persons other than a natural person or a natural person not associated with a broker or dealer which is a person other than a natural person (other than such a broker or dealer whose business is exclusively intrastate and who does not make use of any facility of any national securities exchange); and, (iii) from making use of the mails or any means or instrumentality of interstate commerce to effect transactions in, or to induce or attempt to induce the purchase or sale of, any security (other than an exempted security or commercial paper, bankers' acceptances, or commercial bills) without being registered in accordance with Section 15(b) of the Exchange Act [15 U.S.C. § 78o(b)], all in violation of Section 15(a) of the Exchange Act.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that this Court shall retain jurisdiction over this matter for all purposes, including implementing and enforcing the terms of this Order, and may order other and further relief that this Court deems appropriate under the circumstances.

SO ORDERED this 1st day of March, 2003 at Atlanta, Georgia.



Horace T. Ward, Judge
United States District Court