

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73360 / October 15, 2014

INVESTMENT COMPANY ACT OF 1940
Release No. 31287 / October 15, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16196

In the Matter of

Edward J. Hanrahan

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTIONS 15(b) AND 21C
OF THE SECURITIES EXCHANGE ACT OF
1934, AND SECTION 9(b) OF THE
INVESTMENT COMPANY ACT OF 1940,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against Edward J. Hanrahan (“Hanrahan” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21C of the Exchange Act, and Section 9(b) of the Investment Company Act, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

Summary

These proceedings arise out of the fraudulent activities of Joseph A. Caramadre ("Caramadre"), who devised a scheme to defraud insurance companies. Caramadre purchased variable annuities for himself and actively solicited others to invest in variable annuities using terminally-ill individuals as annuitants. The annuities offered certain benefits upon the death of the annuitants. These benefits included a guaranteed return of all of the money that was invested, plus, under certain annuity contracts, interest and other bonuses and enhancements. Because Caramadre had reason to believe that the designated annuitant would die shortly after the purchase of the annuity, these annuities served as short-term investment vehicles that practically guaranteed an immediate return on the investment.

Caramadre was not registered as a broker, so he needed the assistance of a registered representative of a broker-dealer to purchase the variable annuities from insurance companies. Accordingly, he approached Hanrahan, a registered representative of a broker-dealer. As a registered representative, Hanrahan brokered the sale of variable annuities. Hanrahan received a commission for each transaction, which he, in turn, shared with Caramadre, knowing that Caramadre was not a registered person. Accordingly, Hanrahan willfully aided and abetted Caramadre's violation of Section 15(a) of the Exchange Act, which prohibits any broker or dealer from using the mails or any other means of interstate commerce to "effect any transactions in, or to induce or attempt to induce the purchase or sale of, any security" unless that broker or dealer is registered with the Commission in accordance with Section 15(b) of the Exchange Act.

Respondent

1. **Edward J. Hanrahan**, age 44, is a resident of West Greenwich, Rhode Island. From in or about October 2006 through November 2010, Hanrahan was a registered representative of a registered broker-dealer. In or about 2006, Hanrahan became a 17.25% owner of Estate Planning Resources, Inc.

Other Relevant Persons and Entities

2. **Estate Planning Resources, Inc.** ("EPR") was incorporated in Rhode Island in 2006 and its principal place of business was in Cranston, Rhode Island. EPR was not registered with the Commission in any capacity.

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

3. **Joseph A. Caramadre**, age 54, is a resident of Cranston, Rhode Island. He was the President, Chief Executive Officer and majority owner of EPR. On November 17, 2011, Caramadre was charged in a 66-count federal grand jury indictment alleging that he conspired to steal and to use the identities of terminally-ill patients and elderly individuals to obtain more than 25 million dollars in illicit profits from insurance companies and bond issuers. Caramadre was charged with conspiracy, mail fraud, wire fraud, identity fraud, aggravated identity theft, money laundering and witness tampering. On November 19, 2012, Caramadre pleaded guilty to one count of wire fraud and one count of conspiracy and on December 16, 2013, he was sentenced to six years in prison. Further, on February 3, 2014, the court ordered Caramadre to pay restitution in the amount of \$46,330,077.61, representing the entire loss that the insurance companies sustained since the beginning of the scheme.²

Background

4. From September 2007 through October 2008, Hanrahan, as a registered representative of a broker-dealer and minority owner of EPR, offered and sold variable annuities to individuals identified by Caramadre.

5. A variable annuity is an insurance contract that functions as a retirement-savings vehicle similar to a 401(k) plan. Variable annuities are long-term investments for retirement savings purposes and other long-range goals. The purchaser of the annuity deposits money. The money is then invested in stock or bond funds and grows tax-deferred. When opening the annuity, the purchaser identifies an individual as an “annuitant,” *i.e.*, the person whose death would trigger a payout under the variable annuity contract.

6. Caramadre’s investment scheme took advantage of a feature of a variable annuity known as the death benefit. Through the death benefit, insurers promised that the annuity would generate a return of at least the amount that was originally invested, less withdrawals, at the time of the annuitant’s death. So, for example, if an investor paid \$1 million for the annuity, and the market subsequently declined, the beneficiary still received \$1 million when the annuitant died. Further, some insurance companies sold annuities with enhancements to this basic death benefit, including a built-in interest rate equal to 5-8% of the greater of the principal invested or the value of the underlying portfolio at the time of death, which increased the minimum money-back amount for these policies.

7. The investment scheme resulted in nearly guaranteed returns for purchasers of the variable annuities (the investors). If stock prices rose while the annuitant was still alive, the investor profited from the rise in the market. If stock prices fell, the investor received a full refund of his/her original investment at the time of the death of the annuitant, plus any interest offered as part of certain annuity contracts. Because Caramadre and others had reason to believe that the designated annuitant would die in the near future, the scheme allowed investors to invest their

² The court found that Caramadre and his co-defendant, Raymour Radhakrishnan, were jointly and severally liable for \$33,197,425.26 and Caramadre was solely liable for the remaining \$13,132,652.35 because these losses were sustained before Radhakrishnan’s involvement in the scheme.

money on a risk-free, short-term basis, and, depending on the terms of the annuity, guaranteed an immediate 5-8% return.

8. Hanrahan was responsible for brokering the sale of some of the variable annuities to investors who Caramadre identified because Caramadre himself was not an associated person of a registered broker-dealer. Between September 2007 and October 2008, Hanrahan submitted at least seven applications with the identifying information and signatures of the terminally-ill annuitants identified by Caramadre to his broker-dealer.

9. After the broker-dealer approved the sale of the variable annuity and the insurance company issued the variable annuity, the broker-dealer paid Hanrahan a share of the commission that it received on each variable annuity sale. Hanrahan, in turn, shared a portion of his commission with Caramadre. Specifically, Hanrahan received more than \$483,187 in commissions, of which he shared 82.75% with Caramadre, leaving Hanrahan with at least \$83,349.76. Thus, Caramadre actively solicited investors in exchange for compensation that was entirely dependent on the successful completion of the securities transactions. Hanrahan knew that Caramadre was not an associated person of a registered broker-dealer.

10. As a result of the conduct described above, Hanrahan willfully aided and abetted Caramadre's violation of Section 15(a) of the Exchange Act, which makes it unlawful for any broker or dealer to use the mails or any other means of interstate commerce to "effect any transactions in, or to induce or attempt to induce the purchase or sale of, any security" unless that broker or dealer is registered with the Commission in accordance with Section 15(b) of the Exchange Act.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Hanrahan's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent Hanrahan cease and desist from committing or causing any violations and any future violations of Section 15(a) of the Exchange Act.

B. Respondent Hanrahan be, and hereby is:

barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization;

prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter; and

barred from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock

with the right to apply for reentry after five (5) years to the appropriate self-regulatory organization, or if there is none, to the Commission.

C. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Respondent received at least \$483,187 in commissions, of which he gave \$399,837.24 (or 82.75%) to Caramadre, leaving Respondent with \$83,349.76. Respondent shall pay disgorgement of \$83,349.76 and prejudgment interest of \$16,603.94, for a total payment of \$99,953.76, but this amount is to be offset by \$200,000 that Respondent has already paid, directly or indirectly, to settle related claims. Accordingly, no money is owed to the Commission at this time.

By the Commission.

Brent J. Fields
Secretary