

## Madoff-esque Fraud Scheme in Arizona Goes Bankrupt, Hurts Many

When the real estate bubble burst in 2008, many people lost investments. Apparently, a real estate investment company in the Phoenix area responded to the crash by lying to investors, who gave more and more money to the firm.

Tri-Star Realty, owned by Kenneth Plein, filed for Chapter 7 bankruptcy last year. However, many Sun City investors had not seen the development coming. Although it is common for a company on the brink of bankruptcy to keep that fact a secret, Plein had been lying outright to investors for years.

Arizona's Corporation Commission has sanctioned Tri-Star for selling unregistered investment contracts and deeds of trust, as well as selling securities without a license. These actions constitute violations of securities law. As a result, the Corporation Commission sanctioned Plein to the tune of \$250,000, and ordered him to repay almost \$20 million to investors.

Plein has yet to pay his investors. Plein's Chapter 7 bankruptcy case, which is ongoing, will sell all of the assets of the company. In Chapter 7 bankruptcy, whatever is not exempt by federal law will be sold to pay creditors. In this case, there are around 100 creditors – investors who put their retirement assets into the company. Those investors will receive any funds that can be collected by selling the business's assets, which include substantial real estate.

Unfortunately, real estate prices are currently quite low in the Phoenix area, which will affect the amount of money the investors can recoup. Additionally, bankruptcy creditors are paid in a specific order. If all creditors are equal in status (meaning that all the investors do or do not have any liens on the assets), they will be paid according to a timeline. The first investors will be paid first.

This priority among Tri-Star's creditors remains the distribution rule even though Plein lied to them all. In fact, most of the investors in his company had no idea they were in the back of the line on these investments, or that other people were invested in them at all. While the investors have claims of fraud against Plein, there will likely be nothing to collect left over, even if he is found guilty.

The Arizona Attorney General will go after Plein's assets, and is currently investigating the case.

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