

## **INVESTOR PROTECTION CASE HISTORY**

### **CUSTOMER OWNED, COIN OPERATED TELEPHONES**

#### **Statewide**

In the late 1990s, over 300 Iowans invested over \$6 million in customer-owned, coin-operated telephones or COCOTS. Several issuers and marketing companies utilized unlicensed individuals, including insurance producers, to solicit and sell these investments.

Investors were told they would receive 10 to 15 percent profit on a purchase and lease back of a telephone. The investor would purchase a telephone and lease it back to a management company. The management company would make a lease payment annually to the investor. At the end of a certain period, the company would purchase the equipment back from the investor at the same price. Most of the companies involved ultimately filed bankruptcy and/or ceased operations.

After the Division brought an injunctive action against several individuals in 2002 and won, the case was appealed to the Iowa Supreme Court. The Iowa Supreme Court held these investments were securities, and the individuals selling them were subject to cease and desist orders and civil damages, in a decision issued April 7, 2004.