United States Department of Justice
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District of New Mexico

PRESS RELEASE

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DOUGLAS F. VAUGHAN SENTENCED TO 12 YEARS FOR FEDERAL WIRE AND MAIL FRAUD CHARGES INVOLVING "PONZI" SCHEME

ALBUQUERQUE – This afternoon in Santa Fe, N.M., Chief United States District Judge Bruce D. Black sentenced Douglas F. Vaughan, 64, of Albuquerque, to 12 years in federal prison for wire and mail fraud charges that involved a "Ponzi" scheme in which Vaughan fraudulently obtained more than $74 million from approximately 600 investors who were promised extraordinary returns. Vaughan will be on supervised release for six years after he completes his prison sentence.

In addition to the prison sentence, Judge Black also imposed a money judgment against Vaughan in the amount of $74,745,723.93, which represents a portion of the gross proceeds that Vaughan derived from his criminal conduct. Additionally, Vaughan has agreed to forfeit to the United States previously-seized funds in the amount of $38,298.24 and real property located in Spring Valley, Nev.

The sentence was announced by U.S. Attorney Kenneth J. Gonzales, Carol K.O. Lee, Special Agent in Charge of the Albuquerque Division of the FBI, Richard Ferretti, Resident Agent in Charge of the U.S. Secret Service's Albuquerque Office, and Daniel S. Tanaka, Director of the Securities Division of the N.M. Regulation and Licensing Department.

Vaughan was charged in Feb. 2011, in a 30-count indictment alleging that, between 2005 and 2010, Vaughan operated a promissory note investment program, which he marketed as a means of generating revenue to grow his real estate business, as a Ponzi scheme. It alleged that Vaughan owed more than $74 million in unpaid principal and interest payments to approximately 600 investors when the fraudulent scheme collapsed in early 2010.

On Dec. 21, 2011, Vaughan pled guilty to Count 1 and 4 of the indictment charging him with wire fraud and mail fraud. Vaughan's plea agreement included a 16-page addendum of stipulated facts in which Vaughan admitted the allegations in the indictment and described in detail how he established, marketed and administered his Ponzi scheme.

According to the addendum, Vaughan was the chairman, chief executive officer, president and majority shareholder of Vaughan Company, Realtors (VCR), a business that operated primarily as a residential real estate brokerage and was at one time the largest independent residential brokerage in New Mexico. In 1993, Vaughan began an investment program in which he accepted money on behalf of VCR in exchange for interest-bearing promissory notes. The typical note had a three-year term, an interest rate ranging from 8% to 40% per year, and provided for interest to be paid in monthly installments. At the end of the note's term, Vaughan either paid off the principal or offered the investor the opportunity to "roll over" the principal into a new note. Vaughan signed each promissory note on behalf of VCR.

Vaughan led investors to believe that their investments in the promissory note program were actually or virtually risk-free because they were guaranteed by VCR, Vaughan's personal guarantee, and a $2.5 million deed of trust on certain real estate. Vaughan marketed his promissory note program by representing that the invested funds would be used to purchase real estate and to acquire smaller real estate companies. Instead, Vaughan used the promissory note program funds primarily for three undisclosed purposes: (1) to pay the interest and principal on promissory notes taken out by earlier investors; (2) to pay himself, under the guise of salary, bonuses, or some other personal transfers; and (3) to subsidize the operation of VCR, which was generating insufficient "legitimate" revenues to sustain itself.

By 2005, the promissory note program was an important source of funding for VCR and, without the infusion of capital generated by new promissory note program investors, VCR was insolvent. Despite this, Vaughan continued to distribute the same marketing materials for the promissory note program, sign the same promissory notes, and make the same corporate and personal guarantees. Although Vaughan represented to investors that he would not extend more than $2,500,000.00 in promissory notes, end-of-year financial records reflect that the aggregate principal balance owed to note holders far exceeded this amount:

2004 – $24,351,605.00
2005 – $32,299,363.37
2006 – $39,969,110.68
2007 – $49,984,845.80
2008 – $62,844,445.57
2009 – $74,386,623.38

From at least 2005 through Feb. 2010, Vaughan used funds from new promissory note program investors to make interest payments to existing note holders and thus lulled existing investors into believing that they were being paid returns from VCR's legitimate business revenues. However, VCR's corporate tax returns reflected the following annual losses:

2004 – $4,041,048.00
2005 – $5,595,285.00
2006 – $7,461,409.00
2007 – $9,913,893.00
2008 – $13,313,323.00

2009 – $13,907,738.00

In the addendum, Vaughan admitted that, when his Ponzi scheme began to collapse and he became unable to meet the monthly interest payments to note holders, he made false and misleading excuses to investors and failed to disclose that VCR had insufficient revenue to make the interest payments. In Feb. 2010, when Vaughan filed for personal and corporate bankruptcy, the aggregate principal balance owned to approximately 600 note holders was approximately $74,745,723.93 and the interest expense owed to note holders exceeded $1 million per month.

As part of his plea agreement, Vaughan resolved two other pending cases: a civil case filed against Vaughan by the Securities and Exchange Commission (SEC) in federal court, and a bankruptcy case initiated by Vaughan in federal bankruptcy court. In the SEC case, Vaughan consented to the entry of a judgement that permanently enjoins him from violating the federal securities laws. Vaughan also consented to an order by the SEC in an administrative proceeding that bars him from associating with any broker, dealer or investment advisor, and from participating in any stock offerings. In the bankruptcy case, Vaughan entered into a stipulated judgment that denied him a discharge from bankruptcy.

As required by the plea agreement, the U.S. Attorney's Office moved to dismiss the remaining 28 counts of the indictment after sentence was imposed on Vaughan.

In announcing Vaughan's sentence, U.S. Attorney Gonzales said, "The name Doug Vaughan will be associated in New Mexico with the terms greed and insidious theft for a very long time. He destroyed a once reputable company and wrecked the livelihood and financial security of hundreds of good, trusting people in order to perpetuate his scheme and ridiculously lavish lifestyle. The money his investors lost is gone forever, and no prison sentence will make them whole. But my hope is that this prosecution will bring some solace to his victims and put others on fair notice of the unscrupulous operators out there. If a deal sounds too good to be true, it probably is. My sincere appreciation to the FBI, the U.S. Secret Service and the N.M. Securities Division for bringing this scheme to light and for diligently pursuing justice."

"Today's sentencing is a warning to con artists who would finance their lavish lifestyles by stealing the savings of hard-working Americans," said Special Agent in Charge Carol K.O. Lee, of the Albuquerque Division of the FBI. "It also is a lesson to investors to be cautious and to question promises of exorbitant rates of return. While Mr. Vaughan will have plenty of time behind bars to think about his actions, the many victims he harmed are forced to rebuild their lives as best they can. The Albuquerque FBI Division will continue working with the U.S. Attorney's Office and our law enforcement partners to pursue those who, out of an abundance of greed, threaten to undermine the public's confidence in our economic system and way of life."

"I applaud the collaborative work of State and Federal law enforcement in this case," said Resident Agent in Charge Ferretti of the U.S. Secret Service. "Specifically, the N.M. Securities Division did an outstanding job in uncovering and stopping this fraudulent scheme. These Ponzi schemes are a dangerous and growing trend, and cooperative work by law enforcement, across jurisdictions, is critical to effectively prosecuting these types of cases. As long as criminals, such as Doug Vaughan, target investors in order to further their criminal enterprises, the U.S. Secret Service will continue to target those responsible."

"No prison sentence can ever make whole those who were victimized by Mr. Vaughan. He did not just take their money. Mr. Vaughan callously robbed many of their sense of security and the dignified retirement they had worked their lifetime to achieve," said Director Tanaka of the N.M. Securities Division. "Prison is a pale shadow of the justice Mr. Vaughan deserves but we must take a small measure of comfort in the knowledge that he will never be able to exploit others as he did here. My heart goes out to those who fell prey to this insidious scheme. Please rest assured that we continue to work tirelessly in pursuit of those who would exploit our citizens."

The case against Vaughan was the result of a joint federal-state investigation by the FBI, the U.S. Secret Service, the Securities Division of the N.M. Regulation and Licensing Department, the U.S. Postal Inspection Service, and the New Mexico Attorney General's Office. The case was prosecuted by Assistant U.S. Attorneys Gregory J. Fouratt and John C. Anderson. Assistant U.S. Attorneys Stephen R. Kotz and Cynthia L. Weisman handled the related civil forfeiture proceedings.

This case was brought in coordination with the President's Financial Fraud Enforcement Task Force, which includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets and recover proceeds for victims of financial crimes. The task force is also making the public aware of resources available to protect against these types of fraud and how to report fraud when it occurs. To learn more about investment scams, how to take steps to protect yourself from scams or how to report investment fraud if you believe you have been victimized, the task force recommends that you visit its website, www.StopFraud.gov.

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