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Method One, Reborn Again

After Hypnosis Clinic Is Ordered Shut, A New Practice Rises in Its Place

By Sandra G. Boodman
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This time last year Phoenix Method One, a chain of hypnosis clinics based in Tysons Corner, was flying high. So were the two-year-old company's founders, William R. Runnells Jr., and his wife, Marika Lody Runnells. They lived in a gated condominium community in McLean, drove an assortment of luxury cars and had memberships in expensive private clubs.

Each week about 70 people, some from as far away as Texas, paid up to \$10,000 for a few hours of hypnosis to overcome years of addiction to alcohol, drugs, cigarettes or food. The company spent more than \$100,000 each month on advertising and had a payroll of 20 employees, including the couple's 32-year-old daughter and her husband. Phoenix operated glitzy satellite offices on New York's Park Avenue, Orlando, Tampa and Miami, with plans to open in Los Angeles and Las Vegas.

The Runnellses' lavish lifestyle and well-funded business was a remarkable turnaround for a couple who spent the 1990s in prison, convicted of masterminding a massive fraud involving Landbank Equity Corp., a second mortgage company they operated in the 1980s out of Virginia Beach. Both Runnellses were on parole and under the supervision of federal probation officers. And there was the issue of restitution: in 1991 the federal judge who sentenced them had ordered them to pay \$1 million, and they still owed about \$980,000.

Today Phoenix, which promised its clients unlimited lifetime sessions, is defunct, its assets placed in receivership last November by a federal judge in Norfolk, who ruled that the couple was diverting and concealing assets to avoid paying restitution.

Phoenix has been replaced by a new company, Hypnosis Wellness Center (HWC), a business operating out of the same offices,



Hypnosis Wellness Center owner and Tidewater businessman Robert J. Person says his business is "totally separate" from Phoenix. (By James A. Parcell -- The Washington Post)

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offering nearly identical services and using very similar ads. The new firm is funded in large part by an old friend and former business partner of the Runnellses.

HWC's owner said the business has not proved to be as profitable as Phoenix, which was dubbed a "cash cow" by a federal prosecutor last year who said the company generated more than \$6 million in revenue in two years, providing the Runnellses with an income the government alleges exceeded \$600,000 -- not the \$62,000 they declared on their 2003 income tax forms.

In the past seven months, nearly 80 creditors, including a dozen dissatisfied former patients, have filed claims totaling more than \$510,000 with U.S. District Court in Norfolk seeking payment from Phoenix or one of six active affiliated corporations William Runnells controlled. Authorities say that most claims will not be paid because they are unsecured. Phoenix's liquidated assets currently amount to \$113,000, according to court papers.

Runnells, Phoenix's 65-year-old founder and executive director, is back in prison, serving a two-year sentence for violating his parole by submitting a fraudulent loan application to buy a \$419,000 condo in Miami. His parole expires in 2030.

Meanwhile Marika Runnells, who was Phoenix's director of therapy and its co-founder, has a new job. She testified that she is earning \$60,000 annually as executive director of therapy and director of operations for HWC.

Eerie Resemblance

The new company's Web sites and its advertisements, which have appeared regularly for months in The Washington Post and the New York Times, are nearly indistinguishable from Phoenix's. HWC is offering the same "Method 1" treatment invented by the Runnellses, who have degrees in hypnotherapy from an unaccredited correspondence school in California, where they lived under aliases in the late 1980s while they were federal fugitives.

Despite the similarities, the new company has no relationship to Phoenix, according to its owner, Robert J. Person, a 69-year-old Virginia Beach businessman who said he invested \$30,000 of his own money and agreed to serve as its president and sole owner at the suggestion of his friend and housemate David A. Jernigan. Jernigan, a Tidewater electrician and real estate investor, is one of the Runnellses' closest friends and has backed them previously.

HWC is "totally separate" from Phoenix, said Person, interviewed recently in the Tysons Corner office where he spends one day each week. The chief difference is that his company is run "more in a businesslike fashion." Person said he decided to head the company, even though he knew nothing about hypnosis, because he thought he could make money, and wanted to "help people," including Marika Runnells. He said he met her through Jernigan, who also introduced him to William Runnells.

Jernigan said in an interview that he has invested more than \$50,000 in the new business but is not an owner. He said neither of the Runnellses has a financial interest in the new company, which he is backing because he thinks it is potentially profitable

and because he wants to help Marika Runnells.

"Because of my involvement in the past," with the couple, Jernigan said he was concerned that prosecutors "would get the idea I was running the business for Bill," which he said he is not.

Assistant U.S. Attorney Mark A. Exley of the Financial Litigation Unit in Norfolk, which oversees efforts to collect restitution, declined to comment for this story, citing the policy of his office.

Unlike Phoenix, which was a corporation, HWC is a limited liability company (LLC), according to a spokeswoman at the State Corporation Commission in Richmond. An LLC is not required to file an annual report or to list its members, she said, as is a corporation. In Virginia as in most states, starting a new business requires little more than filling out the paperwork and paying the registration fee.

Because of the Runnellses' history and their prior attempts to evade restitution, authorities have increased their scrutiny of HWC. The couple has paid about \$55,000 of their \$1 million restitution to date, \$40,000 of it after the publication of a Washington Post article in April 2004 that described their lifestyle and Phoenix's operations and raised questions about the government's supervision. Another \$60,000 collected by the court-appointed receiver, who is being paid \$50,000, will also be applied toward the debt, according to court papers.

Beginning in the 1990s when they were incarcerated, the couple repeatedly sought to reduce or eliminate the restitution, saying they couldn't afford to pay it.

Prosecutors have regarded that claim with skepticism and in 2002 launched an investigation into whether the Runnellses were concealing assets.

In 1988, shortly before Bill Runnells was to be arraigned on Landbank-related felony charges, the couple took \$20,000 in cash, drove to Dulles International Airport and disappeared. They took a weekend hypnosis course in Los Angeles that Runnells said enabled him to overcome his twin addictions to gambling and cocaine, and built a lucrative and aggressively marketed hypnosis business called the Pinnacle Method.

Two years later they were arrested by FBI agents in Dallas, where they had moved from Los Angeles after learning they were about to be profiled on the television program "Unsolved Mysteries." They were extradited to Virginia and after an 11-week trial, convicted of 146 counts of racketeering, conspiracy, fraud and obstruction of justice.

Despite the services of a forensic accountant, officials were never able to trace all the money funneled through Landbank, one of the country's largest second mortgage firms, and its 110 shell corporations -- an elaborate pyramid scheme that defrauded investors of more than \$52 million.

Authorities don't know how much money was never accounted for and say they strongly suspect the couple shipped funds to offshore accounts or hid them. Marika Runnells said last year they emerged from prison in 2000 "stone broke" and that no assets

were hidden.

Charles A. Bish, a Tysons Corner accountant, is the court-appointed receiver for Phoenix. Bish said in an interview that he and his staff have spent much of the past year combing through 20 boxes of records that the government characterizes as chaotic or incomplete for Phoenix and other corporations created by William Runnells which speculated in real estate, leased 15 luxury cars and supported the couple's extravagant spending.

"Whether we've found it all, I can't say for sure," Bish said.

On April 8, at an unusual five-hour hearing in U.S. District Court in Norfolk, Judge Rebecca B. Smith, who is overseeing the case, questioned Person and Marika Runnells about the new company. Smith deferred a request by prosecutor Exley to increase Runnells's monthly restitution payments from \$500 to \$859, an amount Runnells's lawyer Nina Ginsburg opposed, saying her client could "barely" afford the restitution she is now paying.

Part of the hearing focused on what Exley called "the peculiar and extensive personal expenses" for meals and travel, and golfing fees on the new company's books, which prosecutors subpoenaed, as well as the financing of the business. Person testified he is the sole owner who put up \$30,000 of his own money in a series of cashier's checks, which he used because the IRS had placed a lien on his account in connection with another company. He said Jernigan had invested \$57,000, which is unsecured.

Runnells testified that she was neither living extravagantly nor charging meals to her employer. Among her monthly expenses were \$1,350 rent for a two-bedroom condo in McLean, her \$400 installment payment and insurance for a Hyundai she bought when Exley objected to the Cadillac she was leasing, as well as \$139 toward a doctorate in hypnosis from an unaccredited correspondence school and between \$100 and \$200 in nutritional supplements.

"I'd like very much to pay back as much as I can and will do everything I can to pay it back," Runnells told the judge. In 2001 she was returned to jail for several months for parole violations, including her failure to pay restitution.

Smith sharply questioned Runnells, a former model, about the make of the watch and suit she was wearing, noting that her "clothing is very expensive-looking and she is very well-kept."

The judge ordered Runnells to submit itemized receipts for "every single thing that she spends money on" for her review and scheduled a new hearing on the restitution increase for Oct. 24. She also noted that "somebody is spending a lot of money feeding themselves and driving around in automobiles and entertaining," citing expenses for golfing fees and meals at more than two dozen restaurants listed on HWC's books for the first three months of 2005.

"No luxuries whatsoever are going to be afforded Mrs. Runnells given the amount of restitution she owes," Smith said.

Ginsburg declined to comment for this story.

From the Ashes, Again

Person is a rangy, amiable man with a shock of silvery hair, a sharp contrast to the bald, mercurial and hyperkinetic William Runnells, an eighth-grade dropout who called himself "Dr. Runnells."

During a recent two-hour interview in his Tysons headquarters, Person said the company has signed up about 100 clients -- an average of six to eight new clients each week since December. It has four employees, is spending \$10,000 to \$12,000 per week on advertising, and about \$6,000 each month on rent. So far, he said, HWC is breaking even.

Person, who owns a Virginia Beach nurse staffing agency, said he regards it as a "really good business" that "has a lot of potential and it can really help people."

Most clients paid \$2,000 to \$6,000 for an average of three to four hypnosis sessions conducted by Marika Runnells in Tysons or by a hypnotherapist in New York, according to Person. Unlimited refresher sessions like those offered by Phoenix do not exist.

Alcohol treatment, which costs \$5,000, remains the most popular, he said. "We have people coming from rehab centers where they spend five times that much," Person observed. Like William Runnells, Person maintains that the expense is integral to the success of treatment.

"If I brought somebody in to cure them of alcohol and only charged them \$500 instead of \$5,000, the success rate would drop way down," he said.

Person said that the success rate of "Method 1" hypnosis remains high. Last year Marika Runnells estimated it to be about 90 percent.

Medical experts have dismissed such claims as specious and say that the only way to prove them is by doing a scientific study, not by citing anecdotes.

"Nobody gets 90 percent doing anything -- I don't care what it is," said David Spiegel, a professor of psychiatry at Stanford University and one of the nation's most respected experts in the clinical uses of hypnosis, in an interview last year.

Person said that his company does not assess the effectiveness of treatment scientifically, but uses contested charges on credit cards as a measure of dissatisfaction. So far, he said, few people have tried to stop payment for treatment.

Person said, his company has been sending a solicitation letter to large employers in the Washington area.

"The Method 1 'Ending Substance Abuse Program' offered by HWC has helped thousands find their way back to a healthier and happier way of life," it says.

Like Person, Jernigan -- whose relationship with the Runnellses dates back to the 1970s -- hopes the fledgling business will prove to be profitable.

Before Landbank, he said, he and William Runnells bought

foreclosed properties together. When the Runnellses got out of prison in 2000, they moved into Jernigan's house in Virginia Beach, and Marika Runnells has said he helped them get back on their feet by financing Phoenix Longevity Center, the Tidewater precursor to Phoenix Method One.

"We've been friends for a long time," Jernigan said. ·

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