

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL

Chairman

3 JIM IRVIN

Commissioner

4 MARC SPITZER

Commissioner

5 In the matter of:

) Docket No. S-03444A-01-0000

6 HOTEL CONNECT LLC's #100-1100)

7 3649 West Beechwood Suite 103)

8 Fresno, CA 93711)

9 MARK ALAN MELKOWSKI, SR.)

2173 East La Vieve Lane)

10 Tempe, AZ 85254)

11 EAGLE COMMUNICATIONS, INC.)

4430 N. Civic Center Plaza #204)

12 Scottsdale, AZ 85251)

13 RONALD LEE GOBLE, individually and dba)

SOUTHWEST TRUST & FINANCIAL)

14 6243 East Gelding Drive)

Scottsdale, AZ 85254)

15 GARY LYLE CHRISTIAN, individually and dba)

CORNERSTONE SENIOR PLANNING)

16 7015 West Firebird Drive)

17 Glendale, AZ 85308)

18 HYLAND A. STOKES, individually and dba)

ESTATE PLANNING PROTECTION)

19 5570 East Via Montoya Drive)

Phoenix, AZ 85054)

20 ROGER LANCETTE, individually and dba)

21 NATIONAL ADVISORY SERVICES and)

SENIOR ADVISORY SERVICES)

22 6857 East Montreal Place)

Scottsdale, Arizona 85254)

23 WALLACE BUTTERWORTH, individually and)

24 dba SENIOR ADVISORY SERVICES)

1411 East Orangewood Avenue #239)

25 Phoenix, AZ 85020)

CRD #728693)

26 Respondents.)

**NOTICE OF OPPORTUNITY FOR
HEARING REGARDING PROPOSED
ORDER TO CEASE AND DESIST, FOR
RESTITUTION, FOR ADMINISTRATIVE
PENALTIES, FOR REVOCATION, AND
FOR OTHER AFFIRMATIVE ACTION**

NOTICE: RESPONDENTS HAVE 10 DAYS TO REQUEST A HEARING

The Securities Division (“Division”) of the Arizona Corporation Commission (“Commission”) alleges that respondents have engaged in acts, practices and transactions, which constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.*, (“Securities Act”).

I.

JURISDICTION

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

II.

RESPONDENTS

2. HOTEL CONNECT #100-1100 LLC’s (“HOTEL CONNECT”) is a series of Nevada limited liability companies, organized between June 5, 1998 and August 5, 1999. Their principal place of business is 3649 W. Beechwood Ave., Suite 103, Fresno, California, 93711. At all pertinent times, HOTEL CONNECT LLCs are purportedly in the business of acquiring, owning, and operating hotel telephone long distance and operator service systems.

3. MARK ALAN MELKOWSKI, SR. (“MELKOWSKI”) is an individual whose last known address is 2173 East La Vieve Lane, Tempe, Arizona, 85254. At various times pertinent hereto, MELKOWSKI was President, director, and statutory agent of EAGLE COMMUNICATIONS, INC. (“EAGLE”) aka Eagle One Communications, Inc. (“Eagle One”). MELKOWSKI was never registered with the Commission as a securities salesman. MELKOWSKI is, and was at all times pertinent hereto, licensed by the Arizona Department of Insurance as an insurance salesman.

4. EAGLE is an Arizona corporation, incorporated in Arizona on May 27, 1998. Its principal place of business is 4430 N. Civic Center Plaza, #204, Scottsdale, Arizona, 85251. Its purpose is “to conduct the business of marketing financial products.” EAGLE was at all times pertinent hereto “Group Manager” for HOTEL CONNECT. EAGLE Agents received their

1 commissions for the sale of HOTEL CONNECT interests and the business opportunities
2 described below from EAGLE. EAGLE was never registered with the Commission as a securities
3 dealer.

4 5. RONALD LEE GOBLE (“GOBLE”), whose last known address is 6243 East
5 Gelding Drive Scottsdale, Arizona 85254, was, at various times pertinent hereto, doing business as
6 SOUTHWEST TRUST & FINANCIAL. GOBLE was never registered with the Commission as a
7 securities salesman. GOBLE is, and was at all times pertinent hereto, licensed by the Arizona
8 Department of Insurance as an insurance salesman.

9 6. GARY LYLE CHRISTIAN (“CHRISTIAN”), whose last known address is 7015
10 West Firebird Drive Glendale, Arizona 85308, was, at various times pertinent hereto, doing business
11 as CORNERSTONE SENIOR PLANNING. CHRISTIAN was never registered with the
12 Commission as a securities salesman. CHRISTIAN is, and was at all times pertinent hereto, licensed
13 by the Arizona Department of Insurance as an insurance salesman.

14 7. HYLAND A. STOKES (“STOKES”), whose last known address is 5570 East Via
15 Montoya Drive Phoenix, Arizona 85054, was, at various times pertinent hereto, doing business as
16 ESTATE PLANNING PROTECTION. STOKES was never registered with the Commission as a
17 securities salesman. STOKES is, and was at all times pertinent hereto, licensed by the Arizona
18 Department of Insurance as an insurance salesman.

19 8. ROGER GEORGE LANCETTE (“LANCETTE”), whose last known address is 6857
20 East Montreal Place, Scottsdale, Arizona 85254, was, at various times pertinent hereto, doing
21 business as NATIONAL ADVISORY SERVICES or SENIOR ADVISORY SERVICES.
22 LANCETTE was never registered with the Commission as a securities salesman. LANCETTE is,
23 and was at all times pertinent hereto, licensed by the Arizona Department of Insurance as an
24 insurance salesman.

25 9. WALLACE BUTTERWORTH (“BUTTERWORTH”), whose last known address is
26 1411 E. Orangewood Ave. #239, Phoenix, Arizona 85020, has been registered with the Commission

1 as a securities salesman with Russian River Financial Services, Inc., an Arizona registered dealer,
2 from on or about December 9, 1999, to the present. From on or about April 12, 1995, to December 6,
3 1999, BUTTERWORTH was associated with Oak Tree Securities, Inc. (“Oak Tree”), an Arizona
4 registered dealer. Beginning around 1998, BUTTERWORTH and LANCETTE collaborated
5 together in SENIOR ADVISORY SERVICES, offering financial planning services and products to
6 seniors and retired persons. From around August 1999, BUTTERWORTH participated in the offer
7 and sale within and from Arizona of membership interests in HOTEL CONNECT to clients of
8 SENIOR ADVISORY SERVICES. EAGLE paid all commissions for these joint sales of HOTEL
9 CONNECT to LANCETTE, who shared those commissions with BUTTERWORTH.
10 BUTTERWORTH did not seek or obtain authority from his dealer, Oak Tree, to sell the HOTEL
11 CONNECT limited liability interests, and BUTTERWORTH failed to report the commissions he
12 received from those sales to his dealer. In addition to his registration as a securities salesman in
13 Arizona, BUTTERWORTH is also, and was at all times pertinent hereto, licensed by the Arizona
14 Department of Insurance as an insurance salesman.

15 10. GOBLE, CHRISTIAN, STOKES, LANCETTE and BUTTERWORTH were all
16 EAGLE Agents aka Eagle One Agents, and may be collectively referred to as “EAGLE Agents.”

17 11. The respondents may be collectively referred to as “RESPONDENTS.”

18 III.

19 FACTS

20 A. Sales and Marketing Network for “Alternative” Investments.

21 12. In or around October 1998, MELKOWSKI recruited several licensed insurance
22 salesmen including the Respondent EAGLE Agents to contract as sales agents for HOTEL
23 CONNECT and World Cash Providers, LLC (“World Cash”) to sell “alternative” investments to
24 their clients. MELKOWSKI acted as a managing sales agent for HOTEL CONNECT and World
25 Cash, assisting these companies by providing the EAGLE Agents with necessary investor paperwork,
26 training the salesmen, processing investor documents, and paying the EAGLE Agents commissions

1 based upon the amount of money invested through their sales and marketing efforts. MELKOWSKI
2 received commissions for the sale of the HOTEL CONNECT membership interests in the amount of
3 20% of the funds raised from investors, and MELKOWSKI was paid up to 19% of the funds raised
4 from the sale of World Cash business opportunities. MELKOWSKI negotiated commission splits
5 individually with the EAGLE Agents and paid them from his own account from commission funds
6 he received from the issuers of these investment products.

7 13. HOTEL CONNECT and World Cash provided joint sales conferences and training
8 sessions for agents on how to sell the LLC membership interests and the World Cash business
9 opportunities programs. MELKOWSKI made presentations to sales agents at some of the sessions.

10 14. In late 1998 or early 1999, top sales producers, including several EAGLE Agents,
11 were rewarded for high volume sales with a “getaway” trip and seminar held in New Orleans.
12 Several training sessions and seminars were held in Fresno, California through late 1999.

13 15. On February 8, 2000, the California Department of Corporations (“DOC”) found
14 that the CTM business opportunities were securities sold in violation of California law, and
15 ordered World Cash and some of its principals, managers and marketers to stop selling these
16 business opportunities in California.

17 16. In February 2000, after the California DOC ordered World Cash to desist and refrain
18 from further sales of business opportunities in California, RESPONDENTS stopped selling HOTEL
19 CONNECT and World Cash products.

20 17. In or around March 2000, several EAGLE Agents attended a sales seminar held in
21 Las Vegas, Nevada, to promote the sale of Mobile Cash Systems, LLC (Mobile Cash) business
22 opportunities, a new program marketed by the same principals who offered the HOTEL CONNECT
23 and the World Cash products.

24 18. RESPONDENTS solicited some of their investors through cold-calls and at
25 seminars advertised to the general public, followed by visits to the investors’ homes.

26

1 19. In some instances, RESPONDENTS went to investors' homes to sell them
2 annuities, and then later represented to these investors that these "alternative" investments would
3 be better investments for them because they could make a larger profit from these investments.
4 EAGLE Agents encouraged their insurance clients to sell their annuities to invest in these
5 "alternative" investments. Some investors sustained penalties or termination charges upon the
6 termination of their annuity contracts, and then, upon RESPONDENTS' recommendations, used
7 the funds to purchase the "alternative" investments.

8 **B. Description of the Hotel Connect Offerings.**

9 20. From in or around October 1998 until February 2000, RESPONDENTS offered and
10 sold within and from Arizona membership interests in Hotel Connect #100-1100 LLCs to
11 approximately 110 investors, who invested approximately \$5,350,000. Investors were told that their
12 funds would be used to operate a hotel long distance and operator service for the purpose of
13 generating a profit for investors.

14 21. The minimum investment for one membership interest in HOTEL CONNECT was
15 \$10,000, for a projected annualized average 17.6% return for the first five years. Investors were told
16 by salesmen and in sales brochures that the investment provided the investor "high returns with
17 minimal risk, good collateralization, and liquidity in case of emergency throughout his or her
18 ownership," and that they could expect annual yields on their investments of 14% during year one,
19 and up to 20% annual yields during year five.

20 22. While HOTEL CONNECT's subscription documents provide specifically that the
21 investments "will be sold only to accredited investors," in fact the investments were in many cases
22 sold to investors who did not meet the definition of an accredited investor as that term is defined
23 under federal law and adopted under the Securities Act.

24 23. RESPONDENTS did not fully disclose the risks of the investments in HOTEL
25 CONNECT.

1 24. Investors in HOTEL CONNECT interests have not received their first annual
2 return, as promised.

3 **C. Description of the “Business Opportunities” Offerings.**

4 25. The EAGLE Agents also offered and sold investments called “business
5 opportunities,” consisting of the sale of equipment together with service agreements. Investors were
6 to receive monthly payments resulting from a share of the profits generated from the operation of
7 their equipment. Investors exercised no managerial or entrepreneurial duties in connection with this
8 investment, and never even saw the equipment. The profits of the investors were dependent upon the
9 services provided by the service companies.

10 26. From around January 1999 through January 2000, the EAGLE Agents, except for
11 BUTTERWORTH, sold World Cash Providers, LLC cash ticket machines (“CTMs”), with services
12 provided by World Cash Providers, Inc., based in Fresno, California, to 47 investors, who invested
13 approximately \$1,860,000. Some of the principals of these issuers, collectively referred to hereafter
14 as “World Cash,” were also involved in the management and marketing of the HOTEL CONNECT
15 membership interests.

16 27. From around January 2000 through June 2000, the EAGLE Agents including
17 BUTTERWORTH offered and sold Mobile Cash business opportunities investments--substantially
18 similar to the CTM business opportunities, to 52 investors, who invested approximately \$2,500,000.
19 These sales involved wireless terminal machines (“WTMs”) together with service agreements. The
20 WTMs were handheld wireless cash ticket machines. Mobile Cash was based in Las Vegas, Nevada.
21 The services were to be provided by two companies based in Mesa, Arizona, World Wireless
22 Systems, Inc. (“Wireless”) and World Electronic Payment Solutions (“WEPS”). Principals of
23 Mobile Cash, Wireless and WEPS also managed or marketed World Cash business opportunities and
24 HOTEL CONNECT membership interests.

25 28. Investors in the World Cash CTM business opportunities stopped getting their
26 monthly “revenue” payments in or before June 2000.

1 29. Investors in the Mobile Cash WTM business opportunities received monthly
2 “revenue” payments, as promised, approximately 90 days after their investments, beginning in
3 April 2000, even though not a single WTM machine was placed in operation. Around March
4 2001, the “revenue” payments to investors stopped.

5 30. On May 24, 2001, the Commission approved and entered an Order to Cease and
6 Desist, for Administrative Penalties, and for Other Affirmative Action and Consent to Same
7 against Respondents including World Cash, Mobile Cash, Wireless and WEPS, in which these
8 respondents admitted for purposes of this and any other administrative proceedings before the
9 Commission that the CTM and WTM business opportunities were securities, and that they were
10 sold in violation of the registration and anti-fraud provisions of the Securities Act.

11 **IV.**

12 **VIOLATION OF A.R.S. § 44-1841**

13 **(Offer and Sale of Unregistered Securities)**

14 31. RESPONDENTS offered or sold securities in the form of investment contracts and/or
15 evidences of indebtedness, within or from Arizona.

16 32. These securities were not registered pursuant to Articles 6 or 7 of the Securities Act.

17 33. This conduct violates A.R.S. § 44-1841.

18 **V.**

19 **VIOLATION OF A.R.S. § 44-1842**

20 **(Transactions by Unregistered Dealers or Salesmen)**

21 34. RESPONDENTS, except BUTTERWORTH, offered or sold securities within or
22 from Arizona while not registered as dealers or salesmen pursuant to Article 9 of the Securities Act.

23 35. This conduct violates A.R.S. § 44-1842.

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25 ...

26 ...

1 **VI.**

2 **VIOLATION OF A.R.S. § 44-1991**

3 **(Fraud in Connection with the Offer or Sale of Securities)**

4 36. In connection with the offer or sale of securities within or from Arizona,
5 RESPONDENTS directly or indirectly: (i) employed a device, scheme or artifice to defraud; (ii)
6 made untrue statements of material fact or omitted to state material facts which were necessary in
7 order to make the statements made not misleading in light of the circumstances under which they
8 were made; or (iii) engaged in transactions, practices or courses of business which operated or would
9 operate as a fraud or deceit upon offerees and investors. RESPONDENTS' conduct relating to the
10 offer and sale of these securities includes, but is not limited to, the following:

11 a) Misrepresenting the safety of these investments and/or failing to disclose specific
12 risks.

13 b) Failing to disclose financial or background information about the issuers or
14 their principals.

15 c) Failing to disclose to HOTEL CONNECT investors that there would be inter-
16 company transfers of funds between HOTEL CONNECT and World Cash or other
17 companies.

18 d) The EAGLE Agents, except BUTTERWORTH, misrepresented to CTM
19 investors that their equipment would be delivered within 30 or 60 days of their completed
20 contract. In fact, some investors never had equipment placed in service for them.

21 e) The EAGLE Agents, except BUTTERWORTH, failed to disclose that many of
22 the CTMs that were purchased were never delivered or placed in service.

23 f) The EAGLE Agents, except BUTTERWORTH, misrepresented that CTM
24 investors were to receive monthly distributions from the revenue generated from the
25 operation of their CTMs. In fact, monthly distributions were paid to many investors for
26 CTMs that were never placed in service for them.

1 g) The EAGLE Agents misrepresented that WTM investors were to receive monthly
2 distributions from the revenue generated from the operation of their WTMs. In fact, from
3 April through January 2000, Wireless distributed monthly payments to investors although no
4 equipment was placed in service for any investors.

5 h) The EAGLE Agents failed to disclose to WTM investors that no WTMs had been
6 placed in service.

7 i) The EAGLE Agents failed to disclose that Wireless and WEPS, the service and
8 processing companies that were supposed to manage the WTMs to generate revenue for the
9 distributions to investors, had not even begun service operations.

10 j) The EAGLE Agents failed to disclose background information regarding the
11 principals of the limited liability interests and the business opportunities, including but not
12 limited to the following:

13 (1) That on February 8, 2000, the California DOC issued orders finding that the
14 business opportunities or investment contracts involving CTMs were
15 securities and ordering World Cash, its presidents, and two Directors of
16 WEPS, Paul Michael ("Mike") Goodman and John P. Steele, to desist and
17 refrain from the unlawful sale of these securities in California.

18 (2) That on February 10, 2000, the California DOC filed a lawsuit in
19 Sacramento County Superior Court against several entities and individuals
20 including three directors of WEPS, Claude D. Smith, Billy Ray Smith and
21 Brian T. Griggs, alleging the illegal and fraudulent offer and sale of an
22 estimated \$20 million of securities in the form of short-term promissory
23 notes to hundreds of investors, many of them elderly. The funds were
24 alleged to be used for investments in commercial automated teller
25 machines, cash ticket machines, and discount telephone service systems in
26 economy motel rooms.

1 k) BUTTERWORTH failed to disclose that from August 1999 to December 1999,
2 while registered under Oak Tree, his participation in the offer and sale of these private
3 securities was not authorized by his dealer, and that, contrary to his reports to his dealer,
4 he was receiving compensation for this outside business activity.

5 37. This conduct violates A.R.S. § 44-1991.

6 38. RESPONDENTS made, participated in or induced the sale or purchase of a
7 security within the meaning of A.R.S. § 44-2003(A). Therefore, RESPONDENTS are liable for
8 the above violations of A.R.S. § 44-1991.

9 **VII.**

10 **REVOCATION PURSUANT TO A.R.S. § 44-1962**

11 **(Denial, Revocation or Suspension of Registration of Salesman)**

12 39. BUTTERWORTH'S conduct is grounds to revoke BUTTERWORTH'S registration
13 as a securities salesman with the Commission pursuant to A.R.S. § 44-1962. Specifically,
14 BUTTERWORTH has:

- 15 a) Violated Section 44-1841 of the Securities Act within the meaning of
16 A.R.S. § 44-1962(2).
- 17 b) Engaged in dishonest or unethical practices within the meaning of A.R.S. §
18 44-1962(10) as defined by A.A.C. R14-4-130(A)(17). Specifically,
19 BUTTERWORTH'S sales of the described securities were not recorded on
20 the records of Oak Tree, the dealer with whom he was registered at the time of
21 at least two transactions totaling \$210,000, from August to December 1999.
- 22 c) Engaged in dishonest or unethical practices within the meaning of A.R.S. §
23 44-1962(10) by not complying with the rules and procedures of his dealer,
24 Oak Tree. Specifically, BUTTERWORTH engaged in outside business
25 activity involving investments without reporting the activity to Oak Tree or
26 obtaining the approval of Oak Tree to engage in such activity.

VIII.

REQUESTED RELIEF

The Division requests that the Commission grant the following permanent relief against
RESPONDENTS:

1. Order RESPONDENTS to permanently cease and desist from violating the Securities Act, pursuant to A.R.S. § 44-2032;
2. Order RESPONDENTS to take affirmative action to correct the conditions resulting from their acts, practices or transactions, including a requirement to make restitution pursuant to A.R.S. § 44-2032;
3. Order RESPONDENTS to pay the state of Arizona administrative penalties of up to five thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;
4. Order the revocation of BUTTERWORTH'S securities salesman registration pursuant to A.R.S. § 44-1962; and
5. Order any other relief that the Commission deems appropriate.

IX.

HEARING OPPORTUNITY

RESPONDENTS may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. R14-4-306. A request must be in writing and received by the Commission within 10 business days after service of this Notice of Opportunity for Hearing. RESPONDENTS must deliver or mail the request to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007. A Docket Control cover sheet must accompany the request. A cover sheet form and instructions may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at www.cc.state.az.us/utility/forms/index.htm.

If a request for a hearing is timely made, the Commission shall schedule the hearing to begin 20 to 60 days from the receipt of the request unless otherwise provided by law, stipulated by the parties, or ordered by the Commission. If a request for a hearing is not timely made, the Commission

