

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL

3 Chairman

4 JIM IRVIN

5 Commissioner

MARC SPITZER

Commissioner

6 In the matter of)

) DOCKET NO. S-03329A-01-0000

7 EARLY DETECTION CENTERS, INC.)

251 Jeanell Drive, Suite 3)

8 Carson City, Nevada 89703-2129)

) DECISION NO. 64204

9 JOHNATHON ROBERTS, INC.)

nka AAA INVESTMENT COMPANY)

10 251 Jeanell Drive, Suite 3)

11 Carson City, Nevada 89703-2129)

**ORDER TO CEASE AND DESIST,
ORDER OF RESTITUTION, ORDER
FOR ADMINISTRATIVE PENALTIES
AND CONSENT TO SAME BY: PAUL
C. WOODCOCK**

12 DAVID HITZIG)

634 West Flower Avenue)

13 Mesa, Arizona 85202)

14 PAUL C. WOODCOCK)

10710 E. Sunnyside Drive)

15 Scottsdale, Arizona 85259)

16 Respondents.)

17 RESPONDENT PAUL C. WOODCOCK, elects to permanently waive his right to a hearing
18 and appeal under Articles 11 and 12 of the Securities Act of Arizona, A.R.S. § 44-1801, *et seq.*
19 (“Securities Act”) with respect to this Order To Cease And Desist, Order of Restitution, and Order
20 for Administrative Penalties (“Order”). PAUL C. WOODCOCK admits the jurisdiction of the
21 Arizona Corporation Commission (“Commission”); neither admits nor denies the Findings of Fact
22 and Conclusions of Law contained in this Order; and consents to the entry of this Order by the
23 Commission.
24
25 ...
26 ...

I.

FINDINGS OF FACT

1
2
3 1. PAUL C. WOODCOCK (“WOODCOCK”) whose last known address is 10710 E.
4 Sunnyside Drive, Scottsdale, Arizona 85259, was at all times relevant, a “Cashier” for EARLY
5 DETECTION CENTER, INC. (“EDC”) and an authorized signer on the company’s Norwest Bank
6 account. In holding these positions, WOODCOCK acted as a salesperson on behalf of EDC and
7 JOHNATHON ROBERTS, INC. (“JOHNATHON ROBERTS”) along with DAVID HITZIG
8 (“HITZIG”) who was at all times relevant, the Statutory Agent, Assistant Secretary, “Cashier” and
9 Authorized Agent for JOHNATHON ROBERTS and the Administrator and “Cashier” of EDC.

10 2. During the period of January 1997 through November 1997, WOODCOCK offered for
11 sale and sold securities to two Arizona residents within or from the state of Arizona in the form of
12 investment contracts issued by EDC through JOHNATHON ROBERTS. JOHNATHON ROBERTS
13 held itself out as a specifically disclosed and authorized agent of EDC. The investments were offered
14 through general solicitations verbally by WOODCOCK and in the newspaper, in the form of a
15 classified ad. WOODCOCK was not a registered securities dealer in the state of Arizona. The
16 investment contracts in EDC were not registered for sale in the state of Arizona, nor offered in
17 reliance upon an available exemption from registration, nor pursuant to a notice filing.

18 Investor One

19 3. On or about February 14, 1997, Investor One responded to a newspaper ad regarding an
20 opportunity for an “absentee only” investor. The ad promised a \$144,000 return the first year on an
21 investment of \$100,000. The ad instructed interested investors to call JOHNATHON ROBERTS.
22 On or about February 14, 1997, Investor One met with an agent for JOHNATHON ROBERTS,
23 other than WOODCOCK. Before any disclosure was made Investor One was required to sign a
24 “Confidentiality and Non-Compete Agreement.” After signing, information regarding the EDC
25 investment was disclosed.

1 4. Pursuant to the terms of the investment, Investor One was told that EDC would open
2 centers throughout the metro Phoenix area. The centers were designed to conduct tests for the
3 early detection of cancer. Under the terms of the investment EDC, together with Investor One,
4 would form a corporation to operate a medical service business in the state of Arizona. Investor
5 One received a pro forma statement of how the financial return to investors was calculated. It
6 showed that the business would return \$144,000 each year on a \$100,000 investment.

7 5. WOODCOCK was present during a second meeting with Investor One. WOODCOCK
8 provided information about cancer testing. Also discussed was information relating to finances and
9 the locations for centers that EDC intended to open. Investor One was provided with a document
10 labeled "Proforma" that listed the expected operating costs and profits.

11 6. Investor One and EDC entered into an Agreement of Incorporation ("Agreement") on
12 March 27, 1997. At that time, Investor One provided a \$100,000 check made payable to EDC.
13 The money was to be put into escrow and used to finance the opening of the first EDC center. In fact,
14 the money was not put into escrow, but deposited into an EDC bank account at Norwest Bank.
15 WOODCOCK was a signatory on this account.

16 7. The Agreement required Investor One and EDC to form a corporation under which they
17 would operate a medical service business. The corporation had to be formed within 30 days of the
18 execution date of Agreement. The Agreement required Investor One to pay a "fee" of \$100,000 to
19 EDC for 50% ownership in the business. The Agreement specified that EDC would provide all
20 necessary equipment, personnel contracts and cover expenses of the center for the first four months of
21 operation. From the fifth month on, EDC would pay all expenses other than advertising and
22 telephone, which would be expenses shared between Investor One and EDC.

23 8. The Agreement provided Investor One with the right to demand that the contract
24 become void if a center was not in place before 45 days following the close. This was a clause
25 Investor One required in the Agreement. The close date was the date the Agreement was signed,
26 March 27, 1997. EDC requested an addendum to the Agreement in April, to extend the date for the

1 opening of the center. The document, entitled "Addendum to Purchase Contract," specifies that a
2 corporation was formed according to the terms of the Agreement, and that the filing of the corporation
3 was postponed so an exact address could be determined. In addition, EDC and Investor One agreed to
4 extend the opening date of the center by fifteen days to consider an alternate location for the center.

5 9. On May 6, 1997, another addendum to the Agreement was executed. The May addendum
6 specifies that the center would be located in Mesa and that the center would open on or before June
7 16, 1997. Investor One made the investment in reliance on representations and agreements set forth
8 in the information provided by EDC.

9 10. The center did not open. Investor One insisted the contract had become void and
10 demanded repayment of his \$100,000 investment. EDC refused to refund the \$100,000 investment.
11 No money was ever refunded.

12 11. WOODCOCK failed to provide a disclosure document and failed to provide essential
13 information regarding the offering. Information withheld included, but was not limited to, risk factors,
14 capitalization, plan of distribution, actual use of proceeds, federal tax aspects, and redemptions. The
15 offering did not include materials disclosing information about the officers and key personnel of either
16 EDC or JOHNATHON ROBERTS, directors of either company, or principal stockholders.

17 Investor Two

18 12. In or about March 1997, Investor Two's son saw an ad in the newspaper regarding the
19 sale of a chiropractic clinic. The meeting took place at the office of JOHNATHON ROBERTS.
20 Investor Two's son called about the clinic and arranged a meeting to discuss the purchase of the
21 clinic. His son did not purchase the clinic but did receive a telephone call approximately one
22 month later regarding an investment in EDC. Investor Two's son was told that EDC would
23 provide a good return on an investment. It was explained that the minimum investment was
24 \$50,000 and one investor from Mesa had already invested. Investor Two's son contacted his father
25 (Investor Two) and mother.

26

1 13. In or about May 1997, Investor Two met at the offices of JOHNATHON ROBERTS
2 with EDC representatives including WOODCOCK. Investor Two was told about the EDC
3 offering, including the claim that EDC would have locations in Scottsdale, Mesa, Sun City,
4 Phoenix and possibly one additional, unnamed location. Investor Two could choose any location
5 he desired.

6 14. A projection chart was presented to Investor Two that predicted EDC would perform 10
7 – 15 tests for cancer each day at a cost of \$399 per test. Investor Two was told that he would
8 receive \$99.75 or 25% of each test. Investor Two understood that he was not required to do any
9 work or management of EDC. All he had to do was stay home and wait for his checks to arrive.
10 Investor Two was further told that he could make a minimum profit of \$100,000 during the first
11 year and that investing in EDC was better than investing in the stock market. Risks associated with
12 the investment were never discussed.

13 15. A second meeting occurred on or about May 7, 1997. This was approximately a week
14 to a week and a half after the first meeting. Investor Two wrote a check for \$10,000 to EDC from
15 his personal bank account. This check was later deposited into the EDC bank account at Norwest
16 Bank. WOODCOCK was a signatory on this account.

17 16. The Agreement is the same as the one entered into by Investor One, with the following
18 distinctions. Investor Two would own 25% of the shares, EDC would own 50% and an investor to
19 be named at a later date would own 25%. The Agreement with Investor Two does not include the
20 first right of refusal to purchase each new location (Section 2.1 of Investor One's Agreement) and
21 does not include the right to demand the contract become void if a center is not in place on or
22 before forty-five days following the close (Section 3.3 of Investor One's Agreement). An Exhibit
23 'A' to Investor Two's Agreement specified that the EDC center would be located in Sun City,
24 Arizona and that the planned opening date for this center was June 16, 1997.

25 17. The Agreement required Investor Two and EDC to form a corporation under which
26 they would operate a medical service business. The corporation had to be formed within 30 days

1 of the execution date of the Agreement, May 7, 1997. The Agreement required Investor Two to
2 pay a "fee" of \$50,000 to EDC for 25% ownership in the business. The Agreement specified that
3 EDC would provide all necessary equipment, personnel contracts and cover expenses of the center
4 for the first four months of operation. From the fifth month on, EDC would pay all expenses other
5 than advertising and telephone, which would be expenses shared between Investor Two and EDC.

6 18. Investor Two's son was told that if he referred anyone who made an investment in
7 EDC, he would pay receive a referral fee. An investment of \$50,000 paid a 5% referral fee. A
8 \$100,000 investment would earn a 10% referral fee. Investor Two never made any referrals.

9 19. On May 22, 1997, Investor Two wrote a second personal check of \$40,000 payable to
10 EDC. The money was from an individual retirement account. The check was deposited into the
11 EDC account at Norwest Bank. WOODCOCK was a signatory on this account.

12 20. Investor Two was told that the EDC clinic would be up and running within two months.
13 When two months passed and the center did not open, Investor Two began to ask questions. EDC
14 representatives including WOODCOCK gave investor Two different excuses for failure to open the
15 clinic. Finally, on January 18, 1998, Investor Two was told that EDC had been dissolved on
16 November 21, 1997, due to a lack of business.

17 21. Investor Two was never provided a disclosure document nor was he provided any other
18 essential information regarding the offering. Information withheld included, but was not limited to,
19 risk factors, capitalization, plan of distribution, actual use of proceeds, federal tax aspects, and
20 redemptions. The offering did not include materials disclosing information about the officers and
21 key personnel of either EDC or JOHNATHON ROBERTS, directors of either company, or
22 principal stockholders.

23 22. Notwithstanding an Agreement to do so, Investor One was never given a first right of
24 refusal to purchase each new location to be opened in the future. In fact, unknown to Investor One,
25 a new Agreement with Investor Two was signed.

26

1 23. EDC opened a clinic in Sun City, of which neither Investor One nor Two was informed.
2 EDC made arrangements for two osteopathic doctors to administer a test called the AMAS test at a
3 cost of \$399 per test. The doctors were told that \$200 would be used to cover laboratory costs of
4 testing and \$199 would be split between EDC and the doctor performing the test. The center
5 remained open for approximately six to eight months and 12 – 20 people visited the center for
6 cancer testing.

7 24. Information regarding the amount of profit from each test was misrepresented.
8 Investors were told that the cost of each test was \$399. Investor One was told that the expenses
9 included \$242.90 to the laboratory and \$20 to the physician doing the test. Investor One expected
10 a return of 50% of the gross profit of \$136.10, or \$68.05 per test. Investor Two was told his profit
11 would be \$99.75 or 25% of each test. In fact, the doctors hired at the Sun City clinic stated the cost
12 of AMAS testing was approximately \$200 per test, leaving \$199 gross profit that the doctor and
13 EDC would divide, 50% to each of them. The money from the testing conducted at the Sun City
14 clinic was not paid to either Investor.

15 25. Notwithstanding agreements to open clinics with both Investors One and Two's
16 investment, no such clinics were ever opened with either investor.

17 26. A financial analysis of EDC records shows that of the \$150,000 provided by investors
18 and deposited into the account, only approximately 25% was actually spent on a business expense,
19 advertising. The remaining funds were spent on a variety of expenses unrelated to EDC including
20 payment to WOODCOCK.

21 27. Investors were never told about the relationship between EDC and JOHNATHON
22 ROBERTS.

23 28. The funds sent to the JOHNATHON ROBERTS account from the EDC bank account
24 totaled approximately \$29,500. The JOHNATHON ROBERTS bank account, at Norwest Bank in
25 Phoenix, was opened January 10, 1997. The company listed an address at 2150 E. Camelback
26 Road, Scottsdale, Arizona 85251. The signatories on the account included WOODCOCK.

II.

CONCLUSIONS OF LAW

1
2
3 1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona
4 Constitution and the Securities Act .

5 2. WOODCOCK offered or sold securities within or from Arizona, within the meaning of
6 A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).

7 3. WOODCOCK violated A.R.S. § 44-1841 by offering or selling securities that were
8 neither registered nor exempt from registration.

9 4. WOODCOCK violated A.R.S. § 44-1842 by offering or selling securities while neither
10 registered as a dealer or salesman nor exempt from registration.

11 5. WOODCOCK violated A.R.S. § 44-1991 (A) by making untrue statements or
12 misleading omissions of material facts.

13 6. WOODCOCKS' conduct is grounds for a cease and desist order pursuant to A.R.S. §
14 44-2032 .

15 7. WOODCOCKS' conduct is grounds for an order of restitution pursuant to A.R.S. § 44-
16 2032.

17 8. WOODCOCKS' conduct is grounds for administrative penalties under A.R.S. § 44-
18 2036.

III.

ORDER

19
20
21 THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, and
22 WOODCOCK'S consent to the entry of this Order, the Commission finds that the following relief
23 is appropriate, in the public interest, and necessary for the protection of investors:

24 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that WOODCOCK, his agents,
25 employees, successors and assigns, permanently cease and desist from violating the Securities Act.
26

1 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that WOODCOCK shall pay
2 restitution to investors shown on the records of the Commission in the amount of \$75,000.
3 Payment shall be due and payable at the time of signing of this order. Payment shall be made by
4 cashier’s check or money order payable to the “State of Arizona” to be placed in an interest-
5 bearing account maintained and controlled by the Arizona Attorney General. The Arizona
6 Attorney General shall disburse the funds on a pro rata basis to investors. If all investors are paid
7 in full, any excess funds shall revert to the state of Arizona.

8 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that WOODCOCK shall pay
9 an administrative penalty in the amount of \$5,000, payable to the “State of Arizona.” Payment
10 shall be due and payable at the time of signing of this order.

11 IT IS FURTHER ORDERED that this Order shall become effective immediately.

12 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

13

14

15 CHAIRMAN COMMISSIONER COMMISSIONER

16 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,
17 Executive Secretary of the Arizona Corporation
18 Commission, have hereunto set my hand and caused the
19 official seal of the Commission to be affixed at the
20 Capitol, in the City of Phoenix, this _____ day of
21 _____, 2001.

22

23 _____
24 BRIAN C. McNEIL
25 Executive Secretary

26

27 _____
28 DISSENT

29

30

1 This document is available in alternative formats by contacting Shelly M. Hood, ADA Coordinator,
2 voice phone number 602-542-3931, E-mail shood@cc.state.az.us.

3 (KEM)
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

CONSENT TO ENTRY OF ORDER

1
2 1. PAUL C. WOODCOCK, an individual, admits the jurisdiction of the Commission over
3 the subject matter of this proceeding. PAUL C. WOODCOCK acknowledges that he has been
4 fully advised of his right to a hearing to present evidence and call witnesses and PAUL C.
5 WOODCOCK knowingly and voluntarily waives any and all rights to a hearing before the
6 Commission and all other rights otherwise available under Article 11 of the Securities Act and
7 Title 14 of the Arizona Administrative Code. PAUL C. WOODCOCK acknowledges that this
8 Order To Cease And Desist, Order Of Restitution, Order For Administrative Penalties And
9 Consent To Same (“Order”) constitutes a valid final order of the Commission.

10 2. PAUL C. WOODCOCK knowingly and voluntarily waives any right he may have
11 under Article 12 of the Securities Act to judicial review by any court by way of suit, appeal, or
12 extraordinary relief resulting from the entry of this Order.

13 3. PAUL C. WOODCOCK acknowledges and agrees that this Order is entered into freely
14 and voluntarily and that no promise was made or coercion used to induce such entry.

15 4. PAUL C. WOODCOCK acknowledges that he has been represented by counsel in this
16 matter, he has reviewed this Order with his attorney and understands all terms it contains.

17 5. PAUL C. WOODCOCK neither admits nor denies the Findings of Fact and
18 Conclusions of Law contained in this Order.

19 6. By consenting to the entry of this Order, PAUL C. WOODCOCK agrees not to take
20 any action or to make, or permit to be made, any public statement denying, directly or indirectly,
21 any Finding of Fact or Conclusion of Law in this Order or creating the impression that this Order
22 is without factual basis. PAUL C. WOODCOCK will undertake steps necessary to assure that all
23 of his agents and employees understand and comply with this agreement. Nothing in this
24 provision affects WOODCOCK’S testimonial obligations or right to take legal positions in
25 litigation in which an administrative agency of the state of Arizona is not a party.
26

1 7. While this Order settles this administrative matter between PAUL C. WOODCOCK
2 and the Commission, PAUL C. WOODCOCK understands that this Order does not preclude the
3 Commission from instituting other administrative proceedings based on violations that are not
4 addressed by this Order.

5 8. PAUL C. WOODCOCK understands that this Order does not preclude the Commission
6 from referring this matter to any governmental agency for administrative, civil, or criminal
7 proceedings that may be related to the matters addressed by this Order.

8 9. PAUL C. WOODCOCK understands that this Order does not preclude any other
9 agency or officer of the state of Arizona or its subdivisions from instituting administrative, civil or
10 criminal proceedings that may be related to matters addressed by this Order.

11 10. PAUL C. WOODCOCK agrees that he will not apply to the state of Arizona for
12 registration as a securities dealer or salesman or for licensure as an investment adviser or
13 investment adviser representative at any time in the future.

14 11. PAUL C. WOODCOCK agrees that he will not exercise any control over any entity
15 that offers or sells securities or provides investment advisory services, within or from Arizona at
16 any time in the future.

17 12. PAUL C. WOODCOCK agrees that he will not offer or sell securities, whether
18 registered or exempt, within or from Arizona at any time in the future.

19 ...

20 ...

21 ...

22 ...

23 ...

24 ...

25 ...

26 ...

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

13. PAUL C. WOODCOCK consents to the entry of this Order and agrees to be fully bound by its terms and conditions. If PAUL C. WOODCOCK breaches any provision of this Order, the Commission may vacate this Order and restore this case to its active docket.

PAUL C. WOODCOCK

SUBSCRIBED AND SWORN TO BEFORE me this ____ day of _____, 2001.

NOTARY PUBLIC

My Commission Expires:
