BEFORE THE ARIZONA CORPORATION COMMISSION

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BARRY WONG

Docket No. S-20472A-06-0535

TEMPORARY ORDER TO CEASE AND DESIST AND NOTICE OF OPPORTUNITY FOR HEARING

In the matter of:

THE 12 PERCENT FUND I, L.L.C. (a/k/a "THE 12% FUND," "12% FUND I" and "FUND"),
an Arizona limited liability company,
13714 Nightstar Ct.
Marana, Arizona 85653-4455;

COYOTE GROWTH MANAGEMENT, L.L.C.,
an Arizona limited liability company,
13714 Nightstar Ct.
Marana, Arizona 85653-4455;

MICHAEL JOSEPH HANNAN (a/k/a "MICHAEL HANNAN," "MIKE HANNAN" and "MICHAEL J. HANNAN, II") and
JANE DOE HANNAN,
husband and wife,
13714 Nightstar Ct.
Marana, Arizona 85653-4455; and

SAM AHDOOT (a/k/a "SAM AHDOUT") and
JANE DOE AHDOOT,
husband and wife,
5625 Crescent Park West, Apt. 130,
Playa Vista, California 90094-2083,

Respondents.

NOTICE: THIS ORDER IS EFFECTIVE IMMEDIATELY

EACH RESPONDENT HAS 20 DAYS TO REQUEST A HEARING

EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission") alleges that RESPONDENTS: (1) THE 12 PERCENT FUND I, L.L.C. (a/k/a "THE 12% FUND," "12% FUND I" and "FUND"); (2) COYOTE GROWTH MANAGEMENT, L.L.C.; (3) MICHAEL JOSEPH HANNAN (a/k/a "MICHAEL HANNAN," "MIKE HANNAN" and "MICHAEL J. HANNAN, II"); (4) JANE DOE HANNAN; (5) SAM AHDOOT (a/k/a "SAM AHDOUT"); and (6) JANE DOE AHDOOT, are engaged in or are about to engage in acts and practices that constitute violations of A.R.S. § 44-1801, *et seq.*, the Arizona Securities Act ("Securities Act"), and that the public welfare requires immediate action.

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. 12 PERCENT FUND I, L.L.C. (a/k/a "THE 12% FUND," "12% FUND I" and "FUND") ("12% FUND") is an Arizona limited liability company whose last known business address is 13714 North Nightstar Ct., Marana, Arizona 85653-4455. Limited liability company membership interests in the 12% FUND are not registered to be sold within or from the state of Arizona.

3. COYOTE GROWTH MANAGEMENT, L.L.C. ("COYOTE") is an Arizona limited liability company whose last known business address is 13714 North Nightstar Ct., Marana, Arizona 85653-4455. COYOTE represents that it is the Investment Adviser and Manager of the 12% FUND. In these capacities, COYOTE controls and bears responsibility for the 12% FUND's

financial affairs and investor solicitation activities. COYOTE is not licensed as an investment adviser or investment adviser representative, and is not registered as a securities dealer or salesman in Arizona.

4. MICHAEL JOSEPH HANNAN (a/k/a "MICHAEL HANNAN," "MIKE HANNAN" and "MICHAEL J. HANNAN, II") ("HANNAN") is an Arizona resident whose last known address is 13714 North Nightstar Ct., Marana, Arizona 85653-4455. HANNAN is the Manager and principal of COYOTE, and the promoter, organizer and founder of the 12% FUND. In these capacities, HANNAN controls and bears responsibility for the 12% FUND's financial affairs and investor solicitation activities. HANNAN is not licensed as an investment adviser or investment adviser representative, and is not registered as a dealer or salesman in Arizona.

5. JANE DOE HANNAN was at all relevant times the spouse of HANNAN. JANE DOE HANNAN is a fictitious name used to describe any person married to HANNAN, and said person is joined in this action under A.R.S. § 44-2031(C) solely for purposes of determining the liability of the marital community. At all relevant times, HANNAN and JANE DOE HANNAN were acting for their own benefit, and for the benefit or in furtherance of the marital community.

6. SAM AHDOOT (a/k/a "SAM AHDOUT") ("AHDOOT") is a California resident whose last known address is 5625 Crescent Park West, Apt. 130, Playa Vista, California 90094-2083. AHDOOT is a principal and promoter of the 12% FUND, and principal of COYOTE. In these capacities, AHDOOT controls and bears responsibility for the 12% FUND's financial affairs and investor solicitation activities. AHDOOT is not licensed as an investment adviser or investment adviser representative, and is not registered as a dealer or salesman in Arizona.

7. JANE DOE AHDOOT was at all relevant times the spouse of HANNAN. JANE DOE AHDOOT is a fictitious name used to describe any person married to AHDOOT, and said person is joined in this action under A.R.S. § 44-2031(C) solely for purposes of determining the liability of the marital community. At all relevant times, AHDOOT and JANE DOE AHDOOT were acting for their own benefit, and for the benefit or in furtherance of the marital community.

8. 12% FUND, COYOTE, HANNAN and AHDOOT may be referred to individually or, collectively, as "RESPONDENTS" as the context requires.

9. JANE DOE HANNAN and JANE DOE AHDOOT are collectively referred to as "RESPONDENT SPOUSES."

III.

FACTS

A. THE SECURITIES

10. RESPONDENTS formed the 12% FUND on or about July 2003. From at least August 2003 to the present, RESPONDENTS have publicly offered securities in the form of investment contracts within and from Arizona through their Internet website www.12percentfund.com (the, "Website").

11. RESPONDENTS represent that in exchange for a minimum $50,000 investment, an investor will own a limited liability company membership interest in the 12% FUND.

12. RESPONDENTS represent that fifty-percent (50%) of the money invested in the 12% FUND is pooled together to purchase high-yield debt instruments such as first and second/subordinated deeds of trust secured by land under development. RESPONDENTS further represent that the remaining fifty-percent (50%) of pooled investor money is used to purchase a liquid stock portfolio concentrated in US and Canadian companies. RESPONDENTS further represent that the 12% FUND may use investor money to write put and call options on certain marketable securities.

13. RESPONDENTS represented from at least December 2003 to July 2006 on their Website that, "Because of our mode of operation **we** (our management company - Coyote Growth Management, LLC) can **guarantee a 12% return**. **There is no guesswork as to what your return is going to be.**" (Emphasis added) From at least December 2003 to July 2006, anticipated profits generated by the 12% FUND were not guaranteed because: (a) profits from the purchase or sale of stock or options with investor money cannot be guaranteed due to unforeseen stock market

fluctuations; (b) not all of the real estate investments made by RESPONDENTS with investor money were personally guaranteed; (c) the real estate investments made by RESPONDENTS with investor money are subject to unpredictable litigation results or bankruptcy proceedings; and (d) RESPONDENTS do not personally guarantee each investor's promised profit. RESPONDENTS' Website also includes an audio recording during which HANNAN now admits that RESPONDENTS cannot legally represent to a potential investor that RESPONDENTS guarantee a 12% per year return on an investment in the 12% FUND.

B. RESPONDENTS' WEBSITE & OFFERING MATERIALS

14. A potential investor does not have to provide RESPONDENTS with any personal information, or obtain a password to access, review, download or print any of the following 12% FUND offering materials and related investment materials available on RESPONDENTS' Website.

15. The Home Page of RESPONDENT'S Website states, in part, that, "**You're About To Discover A Simple & Proven Way To Receive 12% Interest Return...*Without Any Work!***"...SIMPLE...Watching your money grow was never so simple, effortless and affordable. Discover a very stable and liquid investment opportunity without any emotional distress...There has **NEVER** been a late payment or loss on any investment." (Emphasis in original)

16. The Home Page of the Website also includes a video commercial in which HANNAN describes the benefits of investing in the 12% FUND and its past performance. The "FAQ" Page of the Website further includes two (2) detailed "Audio Recording & Live Conference Calls" (the, "Audio Clips") titled, in part: (a) "How Do You Return Funds On Short Notice;" and (b) "How Are You Able To Pay 12% Every Year?" In the Audio Clips, HANNAN and AHDOOT discuss in detail for approximately twelve (12) minutes, their investment philosophies and the benefits of investing in the 12% FUND.

17. The Instructions Page of the Website states, in part:

> Below you'll find step-by-step instructions on what the ***12% Fund*** is, if it's something that can benefit you and if yes, how you can get started immediately on a very stable and liquid investment opportunity that's stress-free!

(Emphasis in original) Immediately to the left and below this paragraph are links to fifty-five (55) pages of offering materials, including a:

(a) detailed, twenty-five (25) page Confidential Private Placement Memorandum (the, "PPM") regarding an investment in the 12% FUND, including both a "Balance Sheet" and "Profit & Loss Statement" for both the 12% FUND and COYOTE as of December 31, 2004;

(b) detailed, fifteen (15) page operating Agreement;

(c) twelve (12) pages of subscription documents, including a: (a) confidential offeree questionnaire; (b) partnership, corporations, trust subscriber questionnaire; (c) subscriber signature page; (d) power of attorney; (e) signature page for power of attorney; and (f) representations by employee benefit plans; and

(d) three (3) page redemption letter package.

(Collectively, the "Offering Materials").

18. The Instructions Page includes a "Step 2" section that states, in part, "Once you have read and understood the above pages, it's time to fill out some of the forms. All you need to do is print them out off of your computer to which you have already viewed or downloaded in PDF format, and then fill in your information." The Instructions Page also includes a "Step 3" instructing a potential Arizona investor to fax or mail the completed Offering Materials to COYOTE at its Marana, Arizona business address. The Instructions Page also includes a "Step 4" instructing a potential investor to either: (a) mail a personal check, cashier's check or money order in the amount of their investment made payable to the 12% FUND; or (b) wire transfer the investment funds directly into the 12% FUND'S bank account.

19. Finally, the Instructions Page states, "Below you may view the most recent **2005 professionally audited detailed financial** reports for the 12% Fund for proof of its success." (Emphasis added) Immediately below this statement is a link to two (2), single page, unsigned "Balance Sheet" spreadsheets purportedly representing the assets, equity and liabilities of both

COYOTE and the 12% FUND for the fiscal year 2005. The two Balance Sheets do not include an "audit report" or certification, and are not professionally audited pursuant to generally accepted auditing standars.

20. The Balance Sheet for the 12% Fund available on the Instructions Page for January through December 2005 states a total partner's investment of $1,645,362.94.

21. The 12% FUND balance sheet for the year ending December 31, 2004 attached to the PPM states partner investments of $1,057,544.95.

22. At least one potential Arizona investor obtained, downloaded and reviewed the Offering Materials, including the Instructions Page, the FAQ Page, Audio Clips and allegedly professionally audited Balance Sheets from RESPONDENTS' Website.

C. RESPONDENTS' ONGOING ACTIVITIY

23. RESPONDENTS intend to continue their offering of securities in the 12% FUND because the PPM states the offering will continue through on or about October 26, 2006.

24. RESPONDENTS also apparently intend to continue their offering because their Website stated that they expect to manage $10 million by the end of 2006, which sum is vastly larger than the total investments identified in the balance sheets discussed above.

25. The Offering Materials and related information discussed above may be obtained by a potential investor from the Website as of the date of this pleading.

D. HANNAN'S PREVIOUS FINANCIAL, SECURITIES AND INVESTMENT ADVISER CONDUCT

26. RESPONDENTS fail to disclose to potential investors that in or about 1987, HANNAN was the President of Institutional Capital Growth, Inc. ("Institutional"), a then registered investment adviser. RESPONDENTS further fail to disclose that in or about 1987, the U.S. Securities and Exchange Commission ("SEC") initiated administrative and sanctions proceedings against HANNAN and Institutional for violating the antifraud provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, and misappropriating and co-mingling client funds, and illegally using those funds to manipulate the price and activity of a

common stock traded on the over-the-counter market. RESPONDENTS fail to disclose that in or about 1987, the SEC accepted a settlement submitted by HANNAN and Institutional that includes findings that HANNAN and Institutional violated the antifraud provisions of the 1933 and 1934 Acts and that Institutional, aided and abetted by HANNAN, violated the antifraud and reporting requirements of the Investment Advisers Act. Under the settlement, Institutional's status as an investment adviser was revoked, and HANNAN was barred from associating with any broker, dealer, municipal securities broker, investment advisor or investment company.

27. RESPONDENTS fail to disclose to potential investors that in or about 1986, HANNAN and Institutional consented to the entry of a final judgment in federal court. HANNAN neither admits nor denies guilt with respect to the allegations of the final judgment. However, the final judgment permanently enjoins HANNAN from violating the antifraud provisions of the 1933 and 1934 Acts, and from aiding and abetting violations of the reporting, books and records and accounting control provisions of the 1934 Act, and the reporting provisions of the Investment Advisers Act. *See, SEC v. Michael J. Hannan, et al.*, No. 86-08542-CIV-RYSKAMP (S.D.Fla.).

28. RESPONDENTS fail to disclose to potential investors that on or about December 31, 1991, HANNAN and his then spouse voluntarily filed a "no asset" Chapter 7 personal bankruptcy in the United States Bankruptcy Court, Northern District of California, No. 91-13020 (Raymond A. Carey, Trustee)(the "Bankruptcy"), in order to obtain the elimination of $5,137,381.91 in debt. On or about June 12, 1992, HANNAN successfully discharged approximately $2,819,406.38 in debt, including millions of dollars in loans and civil judgments and $127,996.08 in casino gambling debts.

IV.

VIOLATION OF A.R.S. § 44-1841

Offer and Sale of Unregistered Securities

29. From on or about August 2003 to the present, RESPONDENTS offered or sold securities in the form of investment contracts in the 12% FUND within or from Arizona.

30. The securities referred to above were not registered pursuant to Articles 6 or 7 of the Securities Act.

31. This conduct violates A.R.S. § 44-1841.

V.

VIOLATION OF A.R.S. § 44-1842

Transactions by Unregistered Dealers or Salesmen

32. RESPONDENTS offered or sold securities in the 12% FUND within or from Arizona while not registered as dealers or salesmen pursuant to Article 9 of the Securities Act.

33. This conduct violates A.R.S. § 44-1842.

VI.

VIOLATION OF A.R.S. § 44-1991

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

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

(a) Misrepresenting that COYOTE is an investment adviser, despite the fact that COYOTE is not licensed as investment adviser or investment adviser representative.

(b) Failing to disclose that HANNAN is subject to an order or judgment denying, prohibiting or revoking his registration or licensure as a dealer or salesman, or investment adviser or investment adviser representative.

(c) Misrepresenting from at least December 2003 to July 2006 on their Website that investors are "guaranteed" a return of 12% per year on their investments in the 12% FUND, despite the fact an investor's return is not guaranteed as discussed in Paragraph 13 above.

(d) Misrepresenting that the two (2), unsigned one (1) page Balance Sheets available from the Instructions Page of RESPONDENTS' Website are professionally audited, despite the fact that they are not professionally audited.

(e) Failing to inform investors that HANNAN voluntarily filed a "no asset" Chapter 7 personal bankruptcy in which he sought and obtained the discharge of almost $3 million dollars of debt, including millions of dollars in loans and civil judgments, and $127,996.08 in casino gambling debts.

35. This conduct violates A.R.S. § 44-1991.

VII.

TEMPORARY ORDER

Cease and Desist from Violating the Securities Act

THEREFORE, based on the above allegations, and because the Commission has determined that the public welfare requires immediate action,

IT IS ORDERED, pursuant to A.R.S. § 44-2032 and A.A.C. R14-4-307, that the RESPONDENTS, their agents, servants, employees, successors, assigns, and those persons in active concert or participation with them CEASE AND DESIST from any violations of the Securities Act.

IT IS FURTHER ORDERED that this Temporary Order to Cease and Desist shall remain in effect for 180 days unless sooner vacated, modified or made permanent by the Commission.

IT IS FURTHER ORDERED that this Order shall be effective immediately.

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VIII.

REQUESTED RELIEF

The Division will request that the Commission grant the following 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 that the marital communities of: (a) RESPONDENT HANNAN and JANE DOE HANNAN; and (b) RESPONDENT SAM AHDOOT and JANE DOE AHDOOT, be subject to any order of restitution, rescission, administrative penalties, or other appropriate affirmative action pursuant to A.R.S. § 25-215; 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. Rule 14-4-307. **If any respondent or respondent spouse requests a hearing, the respondent must also answer this Temporary Order and Notice.** A request for hearing must be in writing and received by the Commission within 20 days after service of this Temporary Order to Cease and Desist. Each RESPONDENT must deliver or mail the request for hearing to Docket Control, Arizona Corporation Commission, 1200 West Washington, Phoenix, Arizona 85007. A Docket Control cover sheet must also be filed with the request for hearing. A cover sheet form and instructions may

be obtained from Docket Control at (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 hearing is timely made, the Commission shall schedule a hearing to begin 10 to 30 days from the receipt of the request unless otherwise provided by law, stipulated by the parties, or ordered by the Commission. **Unless otherwise ordered by the Commission, this Temporary Order shall remain effective from the date a hearing is requested until a decision is entered.** After a hearing, the Commission may vacate, modify or make permanent this Temporary Order, with written findings of fact and conclusions of law. A permanent Order may include ordering restitution, assessing administrative penalties or other action.

If a request for hearing is not timely made, the Division will request that the Commission make permanent this Temporary Order, with written findings of fact and conclusions of law, which may include ordering restitution, assessing administrative penalties or other relief.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Linda Hogan, Executive Assistant to the Executive Director, voice phone number 602/542-3931, e-mail lhogan@azcc.gov. Requests should be made as early as possible to allow time to arrange the accommodation.

X.

ANSWER REQUIREMENT

Pursuant to A.A.C. R14-4-305, if any RESPONDENT or RESPONDENT SPOUSE requests a hearing, the RESPONDENT or RESPONDENT SPOUSE must deliver or mail an Answer to this Temporary Order and Notice to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007, within 30 calendar days after the date of service of this Temporary Order to Cease and Desist and Notice of Opportunity for Hearing. A Docket Control cover sheet must accompany the Answer. 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.

Additionally, the RESPONDENT or RESPONDENT SPOUSE, must serve the Answer upon the Division. Pursuant to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-delivering a copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix Arizona, addressed to Mike Dailey.

The Answer shall contain an admission or denial of each allegation in this Temporary Order and Notice and the original signature of each RESPONDENT, RESPONDENT SPOUSE or the RESPONDENT's or RESPONDENT SPOUSE's attorney. A statement of a lack of sufficient knowledge or information shall be considered a denial of an allegation. An allegation not denied shall be considered admitted.

When a RESPONDENT or RESPONDENT SPOUSE intends in good faith to deny only a part or a qualification of an allegation, the RESPONDENT or RESPONDENT SPOUSE shall specify that part or qualification of the allegation and shall admit the remainder. The RESPONDENT or RESPONDENT SPOUSE waives any affirmative defense not raised in the answer.

The officer presiding over the hearing may grant relief from the requirement to file an Answer for good cause shown.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION, this 28 day of August, 2006.

Matthew J. Neubert
Director of Securities

JMD