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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

JUN 28 2001

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

DOCKETED BY *sd*

In the matter of)
EARLY DETECTION CENTERS, INC.)
251 Jeanell Drive, Suite 3)
Carson City, Nevada 89703-2129)
JOHNATHON ROBERTS, INC.)
251 Jeanell Drive, Suite 3)
Carson City, Nevada 89703-2129)
DAVID HITZIG)
634 West Flower Avenue)
Mesa, Arizona 85202)
PAUL C. WOODCOCK)
10710 E. Sunnyside Drive)
Scottsdale, Arizona 85259,)
Respondents.)

DOCKET NO. S-03329A-01-0000

DECISION NO. 63854

**ORDER TO CEASE AND DESIST,
ORDER OF RESTITUTION, ORDER
FOR ADMINISTRATIVE PENALTIES
RE: EARLY DETECTION CENTERS,
INC. and JOHNATHON ROBERTS,
INC.**

I.

INTRODUCTION

On March 20, 2001, the Securities Division ("Division") of the Arizona Corporation Commission ("Commission") filed a Notice of Opportunity for Hearing Regarding Proposed Order to Cease and Desist, Order of Restitution and Order Assessing Administrative Penalty ("Notice") against EARLY DETECTION CENTERS, INC., JOHNATHON ROBERTS, INC., DAVID HITZIG ("HITZIG"), and PAUL C. WOODCOCK. The Notice specified that all parties would be afforded an opportunity for an Administrative Hearing regarding this matter upon written request filed with Docket Control of the Commission within ten (10) days after receipt of the Notice.

On March 22, 2001, the Division served copies of the Notice by certified mail to Michael D. Taylor, President of EARLY DETECTION CENTERS, INC. and JOHNATHON ROBERTS, INC.

1 as permitted by A.A.C. R14-4-304. The return receipts indicate the Notices were received at
2 EARLY DETECTION CENTERS, INC.'s and JOHNATHON ROBERTS, INC.'s addresses on
3 March 27, 2001. and signed for by "M. D. Taylor."

4 On March 28, 2001, a copy of the Notice for EARLY DETECTION CENTERS, INC. and
5 JOHNATHON ROBERTS, INC. was served upon the Statutory Agent for both companies,
6 Paracorp, 318 N. Carson Street, Suite #201, Carson City, Nevada by Scott R. Balder, Investigator
7 for the state of Nevada, Office of the Secretary of State, Securities Division.

8 EARLY DETECTION CENTERS, INC. and JOHNATHON ROBERTS, INC. failed to request
9 an Administrative Hearing within ten (10) days after receipt of the Notices.

10 II.

11 FINDINGS OF FACT

12 1. EARLY DETECTION CENTERS, INC. ("EDC") was incorporated in Nevada on
13 January 23, 1997. Michael D. Taylor was listed as the President, Secretary, Treasurer and Director.
14 Mr. Taylor lists an address at 251 Jeanell Drive, Suite 3, Carson City, Nevada. EDC never applied
15 for authority to transact business in Arizona. The company filed a Certificate of Dissolution with
16 the Nevada Secretary of State on November 21, 1997. The filing certifies that no part of the capital
17 had been paid, that the business had not begun, and that there was a majority of the incorporators or
18 of the board of directors who desired to dissolve the corporation. This avowal conflicts with
19 information obtained during the Division investigation. During all relevant times, EDC was
20 conducting business involving the offer and sale of securities within or from the state of Arizona.

21 2. JOHNATHON ROBERTS, INC. ("JOHNATHON ROBERTS") was incorporated
22 in Nevada on December 12, 1996. The company listed an address at 251 Jeanell Drive, Suite 3,
23 Carson City, Nevada. Arizona approved the corporation's Application for Authority to Transact
24 Business in Arizona on August 15, 1997. JOHNATHON ROBERTS had a business address in
25 Arizona at 7150 East Camelback Road, #300, Scottsdale. Directors include Bethany Jane Graeser
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1 and Michael D. Taylor. The name of the company was changed in July 1998, to AAA
2 INVESTMENT COMPANY, INC. according to Better Business Bureau records.

3 3. During the period of January 1997 through November 1997, securities were offered for
4 sale and sold within or from the state of Arizona in the form of investment contracts issued by EDC
5 through JOHNATHON ROBERTS. JOHNATHON ROBERTS held itself out as a specifically
6 disclosed and authorized agent of EDC. The investments were offered through general solicitations
7 verbally and in the newspaper, in the form of a classified ad. Individuals offering and selling the
8 investments were not registered securities dealers or salesmen in the state of Arizona. The investment
9 contracts in EDC were not registered for sale in the state of Arizona, nor offered in reliance upon an
10 available exemption from registration, nor pursuant to a notice filing.

11 **Investor One**

12 4. On or about February 14, 1997, Investor One responded to a newspaper ad
13 regarding an opportunity for an "absentee only" investor. The ad promised a \$144,000 return the
14 first year on an investment of \$100,000. The ad instructed interested investors to call the
15 JOHNATHON ROBERTS office. During a meeting on or about February 14, 1997, Investor One
16 was told that EDC intended to open centers throughout the metro Phoenix area. The centers were
17 designed to conduct tests for the early detection of cancer. EDC together with Investor One would
18 form a corporation to operate a medical service business in the state of Arizona. Investor One
19 received a pro forma statement of how the financial return to investors was calculated. It showed
20 that the business would return \$144,000 each year on a \$100,000 investment.

21 5. Investor One and EDC entered into an Agreement of Incorporation ("Agreement")
22 on March 27, 1997. At that time, Investor One provided a \$100,000 check made payable to EDC.
23 The money was to be put into escrow and used to finance the opening of the first EDC center. In fact,
24 the money was not put into escrow, but deposited into an EDC bank account at Norwest Bank.

25 6. The Agreement was signed by an agent for JOHNATHON ROBERTS on behalf of
26 and with the consent of EDC. The Agreement required Investor One and EDC to form a corporation

1 under which they would operate a medical service business. The corporation had to be formed within
2 30 days of the execution date of Agreement. The Agreement required Investor One to pay a "fee" of
3 \$100,000 to EDC for 50% ownership in the business. The Agreement specified that EDC would
4 provide all necessary equipment, personnel contracts and cover expenses of the center for the first four
5 months of operation. From the fifth month on, EDC would pay all expenses other than advertising
6 and telephone, which would be expenses shared between Investor One and EDC.

7 7. The Agreement provided Investor One with the right to demand that the contract
8 become void if a center was not in place before 45 days following the close, a clause Investor One
9 required in the Agreement. The close date was the date the Agreement was signed, March 27,
10 1997. A document, "Addendum to Purchase Contract," specifies that a corporation was formed
11 according to the terms of the Agreement, and that the filing of the corporation was postponed so an
12 exact address could be determined. Documents show that the company was incorporated "for the
13 purpose of operating early cancer detection centers." In addition, EDC and Investor One agreed to
14 extend the opening date of the center by fifteen days to consider an alternate location for the center.
15 An agent of JOHNATHON ROBERTS signed the addendum on behalf of and with the consent of
16 EDC.

17 8. On May 6, 1997, both parties signed another addendum to the Agreement. The May
18 addendum specifies that the center would be located in Mesa and that the center would open on or
19 before June 16, 1997. An agent of JOHNATHON ROBERTS signed the addendum on behalf of and
20 with the consent of EDC.

21 9. The center did not open. Investor One insisted the contract had become void and
22 demanded repayment of his \$100,000 investment, an option specified in the Agreement to
23 Incorporate. No money was ever refunded.

24 10. The information provided to Investor One included a Confidentiality and Non-
25 Compete Agreement, a page entitled "The Idea," a page entitled "Proforma," and an Agreement to
26 Incorporate, including three addenda. Investor One did not receive a disclosure document or essential

1 information regarding the offering. Information withheld included, but was not limited to, risk factors,
2 capitalization, plan of distribution, actual use of proceeds, federal tax aspects, and redemptions. The
3 offering did not include materials disclosing information about the officers and key personnel of either
4 EDC or JOHNATHON ROBERTS, directors of either company, or principal stockholders.

5 **Investor Two**

6 11. Investor Two's son saw an ad in the newspaper regarding the sale of a chiropractic
7 clinic. He called about the clinic and arranged a meeting to discuss the purchase of the clinic. The
8 meeting occurred in approximately March 1997 at the office of JOHNATHON ROBERTS.
9 Investor Two's son did not purchase the clinic but did receive a telephone call approximately one
10 month later from the JOHNATHON ROBERTS employee regarding an investment in EDC. He
11 was told that the EDC investment would offer a good return. The minimum investment was
12 \$50,000 and one investor from Mesa had already invested. Investor Two's son contacted his father
13 (Investor Two) and mother with the information.

14 12. The three of them met at the office of JOHNATHON ROBERTS, where they were
15 told about the EDC offering. They were told that EDC would have locations in Scottsdale, Mesa,
16 Sun City, Phoenix and possibly one additional, unnamed location. Investor Two could choose any
17 location he desired.

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

24 14. A second meeting occurred on or about May 7, 1997. This was approximately a
25 week to a week and a half after the first meeting. Investor Two wrote a check for \$10,000 to EDC
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1 from his personal savings account. The check was later deposited into the EDC bank account at
2 Norwest Bank.

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

12 16. An Agent for JOHNATHON ROBERTS signed the Agreement on behalf of and
13 with the consent of EDC. The Agreement required Investor Two and EDC to form a corporation
14 under which they would operate a medical service business. The corporation had to be formed
15 within 30 days of the execution date of the Agreement, May 7, 1997. The Agreement required
16 Investor Two to pay a "fee" of \$50,000 to EDC for 25% ownership in the business. The
17 Agreement specified that EDC would provide all necessary equipment, personnel contracts and
18 cover expenses of the center for the first four months of operation. From the fifth month on, EDC
19 would pay all expenses other than advertising and telephone, which would be expenses shared
20 between Investor Two and EDC.

21 17. On May 22, 1997, Investor Two wrote a second personal check of \$40,000 payable
22 to EDC. This was from an individual retirement account. The check was deposited into the EDC
23 account at Norwest Bank. Investor Two was told that the EDC clinic would be up and running
24 within two months. When two months passed and the center did not open, Investor Two began to
25 ask questions. Different excuses were given for failure to open the clinic. Finally, on January 18,
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1 1998, Investor Two was told that EDC had been dissolved on November 21, 1997, due to a lack of
2 business.

3 18. Investor Two did not receive a disclosure document or essential information
4 regarding the offering. Information withheld included, but was not limited to, risk factors,
5 capitalization, plan of distribution, actual use of proceeds, federal tax aspects, and redemptions.
6 The offering did not include materials disclosing information about the officers and key personnel
7 of either EDC or JOHNATHON ROBERTS, directors of either company, or principal
8 stockholders.

9 19. EDC did open a clinic in Sun City of which neither Investor One nor Two was
10 informed. EDC made arrangements for two osteopathic doctors to administer a test called the
11 AMAS test at a cost of \$399 per test. The doctors were told that \$200 would be used to cover
12 laboratory costs of testing and \$199 would be split between EDC and the doctor performing the
13 test. The center remained open for approximately six to eight months and 12 - 20 people visited
14 the center for cancer testing.

15 20. An EDC bank account was opened at Norwest Bank Arizona on March 26, 1997.
16 The address for EDC was listed as 634 West Flower Avenue, Mesa, Arizona 85202. This is the
17 residence address for the Agent that signed all agreements on behalf of JOHNATHON ROBERTS.
18 A financial analysis shows that of the \$150,000 provided by investors and deposited into the
19 account, approximately 25% was actually spent on a business expense, advertising. The remaining
20 funds were transferred as follows: approximately 34.2% to Mazel Tov, Inc., 19.5% to
21 JOHNATHON ROBERTS, and 19.2% to Charter Funds, Ltd. Investors were never informed that
22 these companies would receive funds from EDC, nor were they informed of any role that any of the
23 companies played in the EDC venture.

24 21. The funds sent to the JOHNATHON ROBERTS account from the EDC bank
25 account totaled approximately \$29,500. The JOHNATHON ROBERTS bank account, at Norwest
26 Bank in Phoenix, was opened January 10, 1997. The company listed an address at 2150 E.

1 Camelback Road, Scottsdale, Arizona 85251. A signatory on the account included the individual
2 that signed the agreements as an Agent for JOHNATHON ROBERTS.

3 22. Money sent from the EDC bank account to a bank account in the name of Mazel
4 Tov, Inc. totaled approximately \$51,651.68, which represents 34.2% of the money invested in
5 EDC. Mazel Tov, Inc. was incorporated in Nevada on December 11, 1996. The company lists an
6 address at 251 Jeanell Drive, Suite 3, Carson City, Nevada. This is the same address listed in the
7 incorporating papers for EDC, JOHNATHON ROBERTS, and Charter Funds, Ltd. Michael D.
8 Taylor is the President, Secretary, Treasurer and Director for Mazel Tov, Inc. He is also President
9 of Corporate Advisory Service, Inc., the company serving as the Resident Agent in Nevada for
10 Mazel Tov, Inc. The notary public on all related paperwork is Bethany Jane Graeser.

11 23. Money sent from the EDC bank account to a bank account in the name of Charter
12 Funds, Ltd. totaled approximately \$29,000 or 19.2% of the money invested in EDC. Charter
13 Funds, Ltd. incorporated in Nevada on December 11, 1996. The company lists an address at 251
14 Jeanell Drive, Suite 3, Carson City, Nevada. This is the same address listed in the incorporating
15 papers for EDC and JOHNATHON ROBERTS, and Mazel Tov, Inc. Michael D. Taylor is the
16 President, Secretary, Treasurer and Director for Charter Funds, Ltd. He is also President of
17 Corporate Advisory Service, Inc., the company serving as the Resident Agent in Nevada for
18 Charter Funds, Ltd. The notary public on all related paperwork is Bethany Jane Graeser.

19 24. JOHNATHON ROBERTS and EDC failed to provide investors with a prospectus or
20 equivalent offering document containing material information regarding the proposed medical
21 service business including but not limited to the use of proceeds. Investor funds were diverted to
22 two Nevada corporations for an unspecified use and purpose. Both corporations were located at
23 the same corporate address, and controlled by the same individuals that controlled EDC and
24 JOHNATHON ROBERTS.

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1 25. JOHNATHON ROBERTS and EDC failed to disclose information concerning their
2 respective officers and directors or the business backgrounds and experience of those officers and
3 directors in setting up and operating a medical service business.

4 26. JOHNATHON ROBERTS and EDC failed to refund Investor One's money
5 although the Agreement they entered into provided Investor One with the right to demand that the
6 contract become void if a center was not in place before 45 days following the close. Investor One
7 did demand the contract void and requested a return of his investment. The money was never
8 returned.

9 27. JOHNATHON ROBERTS and EDC failed to tell Investor Two that the original
10 Agreement with Investor One to open a clinic had to be amended twice because the scheduled date
11 of the opening could not be complied with. Investor One had an addendum May 6, 1997, requiring
12 a clinic to open on or before June 16, 1997. Investor Two invested his money on May 7, 1997,
13 and May 22, 1997, and was not told about the unopened clinic.

14 28. JOHNATHON ROBERTS and EDC failed to abide by the Agreement with Investor
15 One, Section 2.1, giving Investor One first right of refusal to purchase each new location to be
16 opened in the future. In fact, unknown to Investor One, JOHNATHON ROBERTS and EDC
17 entered into a new Agreement with Investor Two and opened a clinic in Sun City.

18 29. JOHNATHON ROBERTS and EDC failed to open a clinic with either Investors
19 One or Two despite written Agreements and payments to do so, and further failed to advise either
20 Investor about the clinic that opened in Sun City. The money from the testing conducted at the
21 Sun City clinic was not returned to either Investor.

22 30. JOHNATHON ROBERTS and EDC misrepresented in the Agreement with Investor
23 Two that EDC would provide all necessary equipment for testing. In fact, all testing would be
24 performed by outside laboratories.

25 31. JOHNATHON ROBERTS and EDC misrepresented the amount of profit from each
26 test provided. Investors were told that the cost of each test was \$399. Investor One was told that

1 the expenses included \$242.90 to the laboratory and \$20 to the physician doing the test. Investor
2 One expected a return of 50% of the gross profit of \$136.10, or \$68.05 per test. Investor Two was
3 told his profit would be \$99.75 or 25% of each test. In fact, the doctors hired at the Sun City clinic
4 stated the cost of AMAS testing was approximately \$200 per test, leaving \$199 gross profit that the
5 doctor and EDC would divide, 50% to each of them.

6 32. JOHNATHON ROBERTS and EDC failed to tell investors about the relationship
7 between EDC and JOHNATHON ROBERTS. Both HITZIG and Michael D. Taylor held positions
8 in both companies, both companies listed the same address in incorporating papers filed in Nevada,
9 and JOHNATHON ROBERTS received over 19% of the investor money deposited into EDC.

10 III.

11 CONCLUSIONS OF LAW

12 1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona
13 Constitution and the Securities Act of Arizona § 44-1801, *et seq.* ("Securities Act").

14 2. JOHNATHON ROBERTS and EDC offered or sold securities within or from Arizona,
15 within the meaning of A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).

16 3. JOHNATHON ROBERTS and EDC violated A.R.S. § 44-1841 by offering or selling
17 securities that were neither registered nor exempt from registration.

18 4. JOHNATHON ROBERTS and EDC violated A.R.S. § 44-1842 by offering or selling
19 securities while neither registered as dealers or salesmen, nor exempt from registration.

20 5. JOHNATHON ROBERTS and EDC violated A.R.S. § 44-1991 by offering or selling
21 securities within or from Arizona by (a) employing a device, scheme or artifice to defraud, (b)
22 making untrue statements or misleading omissions of material facts, and (c) engaging in
23 transactions, practices or courses of business which operate or would operate as a fraud or deceit.

24 6. JOHNATHON ROBERTS' and EDC'S conduct is grounds for a cease and desist order
25 pursuant to A.R.S. § 44-2032 .

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1 7. JOHNATHON ROBERTS' and EDC'S conduct is grounds for an order of restitution
2 pursuant to A.R.S. § 44-2032.

3 8. JOHNATHON ROBERTS' and EDC'S conduct is grounds for administrative penalties
4 under A.R.S. § 44-2036.

5 **IV.**

6 **ORDER**

7 THEREFORE, on the basis of the Findings of Fact and Conclusions of Law, the
8 Commission finds that the following Order is appropriate, in the public interest, and necessary for
9 the protection of investors:

10 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that JOHNATHON ROBERTS, EDC,
11 their agents, employees, successors and assigns, permanently cease and desist from violating the
12 Securities Act.

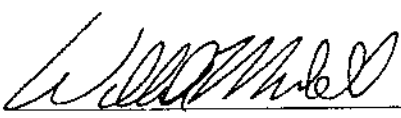
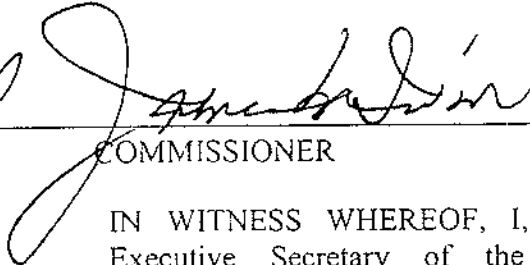
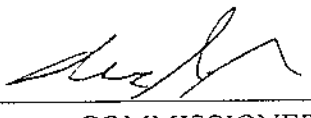
13 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that JOHNATHON
14 ROBERTS and EDC shall, jointly and severally, pay restitution to investors shown on the records
15 of the Commission in the amount of \$150,000, plus interest at the rate of 10% per annum from the
16 date of each investment, within thirty (30) days after entry of this Order. Payment shall be made
17 by cashier's check or money order payable to the "State of Arizona."

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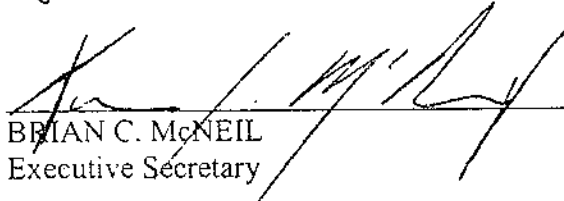
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IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that JOHNATHON ROBERTS and EDC shall each pay an administrative penalty in the amount of \$30,000, payable to the "State of Arizona." Payment shall be made in full by cashier's check or money order within thirty (30) days after entry of this Order. If JOHNATHON ROBERTS and EDC do not comply with this order for administrative penalties, interest will accrue at the rate of 10% per annum.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

		
CHAIRMAN	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 28th day of June, 2001.


BRIAN C. McNEIL
Executive Secretary

DISSENT

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

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