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BEFORE THE ARIZONA CORPORATION COMMISSION

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2004 DEC 28 P 2:46

AZ CORP COMMISSION
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Arizona Corporation Commission

DOCKETED

DEC 28 2004

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In the matter of:
 JOHN E. SHANNON and REBECCA F. SHANNON, husband and wife
 8537 W. Onza, Mesa, AZ 85212
 and
 GARY R. SHANNON,
 3279 Pomme De Terre Circle, Flemington, MO
 65650
 Respondents.

DOCKET NO. S-03580A-04-0000
 NOTICE OF OPPORTUNITY FOR HEARING REGARDING PROPOSED ORDER TO CEASE AND DESIST ORDER FOR RESTITUTION FOR ADMINISTRATIVE PENALTIES AND FOR OTHER AFFIRMATIVE ACTION

NOTICE: EACH RESPONDENT HAS 10 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 JOHN E. SHANNON, REBECCA F. SHANNON and GARY R. SHANNON 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.

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II.

RESPONDENTS

2. JOHN E. SHANNON is an individual whose last known address is 8537 W. Onza, Mesa, AZ 85212.

3. JOHN E. SHANNON was at all relevant times the spouse of REBECCA F. SHANNON. JOHN E. SHANNON is joined in this action individually, and under A.R.S. §44-2031(C) for purposes of determining the liability of the marital community.

4. REBECCA F. SHANNON is an individual whose last known address is 8537 W. Onza, Mesa, AZ 85212.

5. REBECCA F. SHANNON was at all relevant times the spouse of JOHN E. SHANNON. REBECCA F. SHANNON is joined in this action individually, and under A.R.S. §44-2031(C) for purposes of determining the liability of the marital community.

6. GARY R. SHANNON is an individual whose last known address is 3279 Pomme De Terre Circle, Flemington, MO. 65650.

7. At all times relevant, JOHN E. SHANNON and REBECCA F. SHANNON were acting for their own benefit, and for the benefit or in furtherance of the marital community.

8. JOHN E. SHANNON, REBECCA F. SHANNON, and GARY R. SHANNON may be collectively referred to as "RESPONDENTS."

III.

FACTS

9. Money Tree Auto Services, LLC ("Money Tree") is an Arizona limited liability company which was doing business in the State of Arizona as Fast Cash Auto Leasing ("Fast Cash"). Money Tree was filed as an LLC with the State of Arizona in February 2000, with its principal offices located in Arizona.

1 10. Money Tree was engaged in the business of buying automobiles from cash strapped
2 individuals at a percentage of the automobiles' market value, then leasing them back to the original
3 owners at very high interest rates.

4 11. To finance its operation, Money Tree and RESPONDENTS offered investment
5 opportunities to other individuals. Under the general terms of the Money Tree investments, Money
6 Tree was to use investor monies for the purchase of automobile inventory and their associated
7 expenses.

8 12. In written promissory notes with investors, Money Tree and RESPONDENTS guaranteed
9 interest payments of approximately 30% to 40% per annum. Money Tree and RESPONDENTS
10 promised that the principal investment would be returned to the investor when the automobile
11 purchased with each investor's money was resold by Money Tree or the respective lease was paid
12 off prior to the end of the respective investment term.

13 13. RESPONDENTS made false statements regarding the financial health of Money Tree. Up
14 until November 2003, Money Tree and RESPONDENTS specifically told investors that their
15 money was safe and growing, when in fact the business was in financial difficulty and had been
16 using later investor money to pay back earlier investors for a long period of time. Even with the
17 additional new investor money, it was not enough to keep the scheme afloat. Automobile inventory
18 was missing, clients who were leasing back their own automobiles at high interest rates were
19 defaulting on their contracts, and there was little cash reserve to allow Money Tree to pay investors.

20 14. RESPONDENTS did not disclose that neither Money Tree nor RESPONDENTS were able
21 to meet their financial obligations to the investors. In fact, Money Tree and RESPONDENTS
22 deceived investors by sending out false statements to investors indicating a preservation of their
23 principal investment and accrued interest. In some instances, the statements showed an accrual of
24 interest to certain investors which was reinvested in Money Tree. In other cases, investors were
25 issued checks in the amount of their interest accrual on a regular basis. For the majority of the time
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1 that Money Tree was in operation, the interest money paid to investors was paid as a result of new
2 investor money.

3 15. RESPONDENTS made material omissions by failing to disclose material facts including
4 risk factors associated with the Money Tree investment, such as liquidity and transferability of the
5 investment contracts. RESPONDENTS made material omissions by failing to provide prospectus
6 information or audited or actual financial statements to investors.

7 16. RESPONDENTS made material misrepresentations to investors by failing to disclose that
8 investor funds would be used for expenses not directly associated with the terms outlined in the
9 promissory notes, including, but not limited to: business expenses, personal expenses, salaries, and
10 paying back earlier investors with new investor money.

11 17. RESPONDENTS told investors that their investment was fully secured by the automobiles
12 purchased with the investors' money, which was untrue. Although originally there were separate
13 accounts set up for each investor, eventually all investor money was placed in a single business
14 account. RESPONDENTS also advised investors that the principals involved in managing the
15 investor monies had extensive experience in credit assessment, loan and lease administration, and
16 automobile markets. In fact, none of the RESPONDENTS had extensive experience in any of those
17 areas.

18 18. RESPONDENTS told investors that their investment was personally guaranteed by the
19 owners of Money Tree. In fact, none of the RESPONDENTS had the financial wherewithal to
20 guarantee the investor money.

21 19. Between February 2000 and January 2004, Money Tree and RESPONDENTS raised over
22 \$900,000.00 from approximately thirty one investors, most of whom reside in Arizona.

23 20. Between Money Tree's incorporation date of February 2000 and the amendment date of
24 October 2002, JOHN E. SHANNON and GARY R. SHANNON were the sole members of Money
25 Tree. Between the amendment date of October 2002 and May 2003, GARY R. SHANNON was the
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1 sole member of Money Tree. Between May 2003 and September 2003, REBECCA F. SHANNON
2 was one of three members of Money Tree. Between September 2003 and the present, REBECCA F.
3 SHANNON has been the sole member of Money Tree.

4 21. Between the start up date of Money Tree and its subsequent bankruptcy filing in January
5 2004, JOHN E. SHANNON was active in the business. His activities in Money Tree included
6 soliciting investors, advertising for investors, executing contracts with investors, business planning,
7 management decisions and direction, employee management, and monetary disbursement.

8 22. Between the start of date of Money Tree and approximately October 2002, GARY R.
9 SHANNON was active in the business. His activities in Money Tree included soliciting investors,
10 advertising for investors, executing contracts with investors, business planning, management
11 decisions and direction, employee management, and monetary disbursement.

12 23. Between approximately October 2002 and the January 2004, REBECCA F. SHANNON
13 was active in the business. Her activities in Money Tree included business planning, management
14 decisions and direction, employee management, and monetary disbursement.

15 24. Money Tree filed for Chapter 7 bankruptcy protection January 22, 2004 in the United States
16 Bankruptcy Court, District of Arizona, where it is currently pending.

17 25. Astute, LLC is an Arizona limited liability company. Astute was registered with the State of
18 Arizona in February 2002, with its principal offices located in Arizona. Astute was created to
19 manage Money Tree.

20 26. In approximately October 2002, Astute assumed control of Money Tree.

21 27. Between Astute's incorporation date of February 2002 and the termination date of
22 November 2003, REBECCA F. SHANNON was either the sole member or the controlling member
23 of Astute.

24 28. Astute filed its Termination with the Arizona Corporation Commission, Corporations
25 Division on November 6, 2003.

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1 IV.

2 VIOLATION OF A.R.S. § 44-1841

3 (Offer or Sale of Unregistered Securities)

4 29. From on or about February 2000 to January 2004, RESPONDENTS offered or sold securities
5 in the form of promissory notes, within or from the State of Arizona.

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

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

9 V.

10 VIOLATION OF A.R.S. § 44-1842

11 (Transactions by Unregistered Dealers or Salesmen)

12 32. RESPONDENTS offered or sold securities within or from the State of Arizona, while not
13 registered as dealers or salesmen pursuant to the provisions of Article 9 of the Securities Act.

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

15 VI.

16 VIOLATION OF A.R.S. § 44-1991

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

18 34. In connection with the offer or sale of securities within or from Arizona, RESPONDENTS
19 directly or indirectly: (i) employed a device, scheme or artifice to defraud; (ii) made untrue
20 statements of material fact or omitted to state material facts which were necessary in order to make
21 the statements made not misleading in light of the circumstances under which they were made; and
22 (iii) engaged in transactions, practices or courses of business which operated or would operate as a
23 fraud or deceit upon offerees and investors. RESPONDENTS' conduct includes, but is not limited
24 to, the following:
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1 a) Making false statements regarding the financial health of Money Tree. Up until
2 November 2003, Money Tree and RESPONDENTS specifically told investors that their money was
3 safe and growing, when in fact the business was in financial shambles. Even with the additional new
4 investor money, it was not enough to keep the Ponzi scheme afloat. Automobile inventory was
5 missing, clients who were leasing back their own automobiles at high interest rates were defaulting
6 on their contracts, and there was little cash reserve to accurately portray the ability of Money Tree to
7 pay investors.

8 b) Failing to disclose that neither Money Tree nor RESPONDENTS were able to meet
9 their financial obligations to the investors. Money Tree and RESPONDENTS sent out false
10 statements to investors indicating a preservation of their principal investment. In some instances, the
11 statements showed an accrual of interest to certain investors which was reinvested in Money Tree, or
12 investors were issues checks in the amount of their interest accrual on a regular basis. For the
13 majority of the time that Money Tree was in operation, the interest money paid to investors was paid
14 as a result of new investor money.

15 c) Failing to disclose risk factors associated with the Money Tree investment, including
16 liquidity and transferability of the investment contracts.

17 d) Failing to provide prospectus information to investors.

18 e) Failing to provide audited or actual financial statements to investors.

19 f) Failing to disclose to investors that investor funds would be used for expenses not
20 directly associated with the terms outlined in the promissory notes, including, but not limited to:
21 business expenses, personal expenses, salaries, and paying back earlier investors with new investor
22 money.

23 g) Telling investors that their investment was fully secured by the automobiles
24 purchased with the investors' money, which was untrue.

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XIII.

HEARING OPPORTUNITY

RESPONDENTS may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. R14-4-306. **If any RESPONDENT requests a hearing, that person must also answer this Notice.** A request for hearing must be in writing and received by the Commission within 10 business days after service of this Notice of Opportunity for Hearing. Each person 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 may, without a hearing, enter an Order against each RESPONDENT granting the relief requested by the Division in this Notice of Opportunity for Hearing.

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 Secretary, voice phone number (602) 542-3931, or e-mail lhogan@cc.state.az.us. Requests should be made as early as possible to allow time to arrange the accommodation.

XIV.

ANSWER REQUIREMENT

Pursuant to A.A.C. R14-4-305, if any RESPONDENT requests a hearing, each RESPONDENT must deliver or mail an Answer to this Notice of Opportunity for Hearing to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona

1 85007, within 30 calendar days after the date of service of this Notice of Opportunity for Hearing.
2 A Docket Control cover sheet must accompany the Answer. A cover sheet form and instructions
3 may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet
4 web site at www.cc.state.az.us/utility/forms/index.htm.

5 Additionally, each RESPONDENT must serve the Answer upon the Division. Pursuant to
6 A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-delivering a
7 copy of the Answer to the Division at 1300 W. Washington, 3rd Floor, Phoenix, Arizona, 85007,
8 addressed to Michelle M. Allen.

9 The Answer shall contain an admission or denial of each allegation in this Notice and the
10 original signature of each RESPONDENT or their attorney. A statement of a lack of sufficient
11 knowledge or information shall be considered a denial of an allegation. An allegation not denied
12 shall be considered admitted.

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

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

19 Dated this 28 day of December, 2004.

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23 Matthew Neubert,
24 Director of Securities
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