

WILLIAM A. MUNDELL  
CHAIRMAN

JIM IRVIN  
COMMISSIONER

MARC SPITZER  
COMMISSIONER



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DIRECTOR

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ARIZONA CORPORATION COMMISSION

OPEN MEETING ITEM

MEMORANDUM

TO: Chairman William A. Mundell  
Commissioner Jim Irvin  
Commissioner Marc Spitzer

Arizona Corporation Commission

DOCKETED

FROM: Mark Sendrow *MS*  
Director of Securities

OCT 11 2001

DOCKETED BY *nae*

AZ CORP COMMISSION  
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DATE: October 10, 2001

RE: Wallace Butterworth, Docket No. S-03444A-01-0000 (Hotel Connect LLC's #100-1100, et al.)

CC: Brian C. McNeil, Executive Secretary

Attached is a proposed Order to Cease and Desist, Order of Restitution, Order for Administrative Penalties, Order of Revocation and Consent to Same (Order), fully executed by Wallace Butterworth (Respondent), finding violations of the Securities Act, including the sale of unregistered securities, misrepresentations and omissions in the sale of securities, and dishonest or unethical practices by a registered securities salesman.

On July 18, 2001, the Division filed a Notice against Respondent and others, alleging that Respondent was involved from around August 1999 through June 2000, in the offer and sale of investment contracts, i.e., securities, within and from Arizona. The investment contracts were membership interests in limited liability companies and "business opportunities" involving the sale of equipment together with services agreements.

In the proposed Order, Respondent has consented to restitution totaling \$815,000, plus interest from the date of the investments, administrative penalties in the amount of \$25,000, and revocation of his securities salesman registration. Respondent has agreed that he will not offer or sell, directly or indirectly, securities or provide investment advisory services, within or from Arizona, and that he will not apply for registration as a securities salesman or dealer, or licensure as an investment adviser or investment adviser representative in Arizona.

MS: ptj  
W/ attachments  
Originator: Pamela T. Johnson  
Assistant Attorney General Assigned: Moira McCarthy

1200 WEST WASHINGTON, PHOENIX, ARIZONA 85007 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701

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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

6243 East Gelding Drive

14 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

5570 East Via Montoya Drive

19 Phoenix, AZ 85054

20 ROGER LANCETTE, individually and dba

NATIONAL ESTATE SERVICE AND

21 PLANNING and SENIOR ADVISORY

SERVICES

22 6857 East Montreal Place

23 Scottsdale, Arizona 85254

24 WALLACE BUTTERWORTH, individually and

dba SENIOR ADVISORY SERVICES

25 1411 East Orangewood Avenue #239

Phoenix, AZ 85020

26 CRD #728693

) **ORDER TO CEASE AND DESIST,  
ORDER OF RESTITUTION, ORDER  
FOR ADMINISTRATIVE PENALTIES,  
ORDER OF REVOCATION AND  
CONSENT TO SAME**

) **RE: WALLACE BUTTERWORTH,  
individually and dba BUTTERWORTH  
ADVISORY SERVICES and SENIOR  
ADVISORY SERVICES**

) **DECISION NO. \_\_\_\_\_**

Respondents.

1 Respondent Wallace Butterworth, individually and doing business as Butterworth Advisory  
2 Services and Senior Advisory Services ("RESPONDENT"), elects to permanently waive any right  
3 to a hearing and appeal under Articles 11 and 12 of the Securities Act of Arizona, A.R.S. § 44-1801  
4 *et seq.* ("Securities Act") with respect to this Order To Cease And Desist, Order of Restitution,  
5 Order for Administrative Penalties, and Order of Revocation ("Order"). The aforesaid  
6 RESPONDENT admits the jurisdiction of the Arizona Corporation Commission ("Commission");  
7 admits only for purposes of this proceeding and any other administrative proceedings before the  
8 Commission or any other agency of the state of Arizona, the Findings of Fact and Conclusions of  
9 Law contained in this Order; and consents to the entry of this Order by the Commission.

10 **I.**

11 **FINDINGS OF FACT**

12 1. RESPONDENT, whose last known address is 1411 E. Oranewood Ave. #239,  
13 Phoenix, Arizona 85020, was registered with the Commission as a securities salesman with Russian  
14 River Financial Services, Inc., an Arizona registered dealer, from on or about December 9, 1999, to  
15 August 3, 2001. From on or about April 12, 1995, to December 6, 1999, RESPONDENT was  
16 associated with Oak Tree Securities, Inc. ("Oak Tree"), an Arizona registered dealer.

17 **A. Sales and Marketing Network for "Alternative" Investments.**

18 2. Beginning around 1998, RESPONDENT and Roger Lancette collaborated together in  
19 Senior Advisory Services, offering financial planning services and products to seniors and retired  
20 persons. From around August 1999, RESPONDENT participated with Lancette in the offer and sale  
21 within and from Arizona of "alternative investments" including membership interests in Hotel  
22 Connect LLCs #700-900 to clients of Senior Advisory Services. Eagle Communications, Inc.  
23 ("Eagle") paid all commissions for these joint sales of Hotel Connect to Lancette, who shared those  
24 commissions with RESPONDENT.

25 3. RESPONDENT did not seek or obtain authority from his dealer, Oak Tree, to sell the  
26 Hotel Connect limited liability interests, and RESPONDENT failed to report the commissions he

1 received from those sales to his dealer. In addition to his registration as a securities salesman in  
2 Arizona, RESPONDENT is also, and was at all times pertinent hereto, licensed by the Arizona  
3 Department of Insurance as an insurance salesman.

4 4. RESPONDENT solicited some of his investors through cold-calls and at seminars  
5 advertised to the general public, followed by visits to the investors' homes.

6 5. Two of RESPONDENT's insurance clients, a married couple, sold their annuities  
7 to invest in these "alternative" investments. Upon RESPONDENT's recommendation, those two  
8 investors knowingly sustained penalties or termination charges upon the termination of their annuity  
9 contracts, and then, used the funds to purchase the "alternative" investments.

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

11 6. From in or around July 1999 until February 2000, RESPONDENT offered and sold  
12 or participated in the sale of membership interests in Hotel Connect #700-900 LLC's to four  
13 investors, within and from Arizona. Investors were told that their funds would be used to operate a  
14 hotel long distance and operator service for the purpose of generating a profit for investors.

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

21 8. RESPONDENT did not fully disclose the risks of the investments in Hotel  
22 Connect.

23 9. Investors in Hotel Connect interests have not received their first annual return, as  
24 promised.

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

2           10.     RESPONDENT sold “business opportunities” for Mobile Cash Systems, LLC,  
3 consisting of the sale of equipment together with service agreements. Investors were to receive  
4 monthly payments resulting from a share of the profits generated from the operation of their  
5 equipment. Investors exercised no managerial or entrepreneurial duties in connection with this  
6 investment, and never even saw the equipment. The profits of the investors were dependent upon the  
7 services provided by the service companies.

8           11.     From around January 2000 through June 2000, RESPONDENT offered and sold or  
9 participated in the sale of Mobile Cash business opportunities investments to approximately 14  
10 investors. These sales involved wireless terminal machines (“WTMs”) together with service  
11 agreements. The WTMs were handheld wireless cash ticket machines. Mobile Cash was based in  
12 Las Vegas, Nevada. The services were to be provided by two companies based in Mesa, Arizona,  
13 World Wireless Systems, Inc. (“Wireless”) and World Electronic Payment Solutions (“WEPS”).  
14 Principals of Mobile Cash, Wireless and WEPS also managed or marketed Hotel Connect  
15 membership interests.

16           12.     Investors in the Mobile Cash WTM business opportunities received monthly  
17 “revenue” payments, as promised, approximately 90 days after their investments, beginning in  
18 April 2000, even though not a single WTM machine was placed in operation. Around March  
19 2001, the “revenue” payments to investors stopped.

20           13.     In connection with the offer or sale of securities within or from Arizona,  
21 RESPONDENT directly or indirectly made untrue statements of material fact or omitted to state  
22 material facts which were necessary in order to make the statements made not misleading in light of  
23 the circumstances under which they were made. RESPONDENT’S conduct includes, but is not  
24 limited to, the following:

- 25                   a) Representing that the investments were safe and failing to disclose specific risks.
- 26

1           b) Failing to disclose financial or background information about the issuers or  
2 their principals.

3           c) Failing to disclose to Hotel Connect investors that there would be inter-  
4 company transfers of funds between Hotel Connect and other related companies.

5           d) Representing that WTM investors were to receive monthly distributions from the  
6 revenue generated from the operation of their WTMs. In fact, from April through January  
7 2000, Wireless distributed monthly payments to investors although no equipment was placed  
8 in service for any investors.

9           e) Failing to disclose to WTM investors that no WTMs had been placed in service.

10          f) Failing to disclose that Wireless and WEPS, the service and processing companies  
11 that were supposed to manage the WTMs to generate revenue for the distributions to  
12 investors, had not even begun service operations.

13          g) Failing to disclose background information regarding the principals of the  
14 limited liability interests and the business opportunities, including but not limited to the  
15 fact that on February 10, 2000, the California DOC filed a lawsuit in Sacramento County  
16 Superior Court against several entities and individuals including three directors of WEPS,  
17 Claude D. Smith, Billy Ray Smith and Brian T. Griggs, alleging the illegal and fraudulent  
18 offer and sale of an estimated \$20 million of securities in the form of short-term  
19 promissory notes to hundreds of investors, many of them elderly. The funds were alleged  
20 to be used for investments in commercial automated teller machines, cash ticket machines,  
21 and discount telephone service systems in economy motel rooms.

22          h) Failing to disclose that from August 1999 to December 1999, while registered  
23 under Oak Tree, his participation in the offer and sale of these private securities was not  
24 authorized by his dealer, and that, contrary to his reports to his dealer, he was receiving  
25 compensation for this outside business activity.

II.

CONCLUSIONS OF LAW

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

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

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

9 4. RESPONDENT violated A.R.S. § 44-1991 by making untrue statements or  
10 misleading omissions of material facts.

11 5. RESPONDENT's conduct is grounds for a cease and desist order pursuant to A.R.S.  
12 § 44-2032.

13 6. RESPONDENT's conduct is grounds for an order of restitution pursuant to A.R.S. §  
14 44-2032.

15 7. RESPONDENT's conduct is grounds for administrative penalties under A.R.S. § 44-  
16 2036.

17 8. RESPONDENT is subject an order of revocation pursuant to A.R.S. § 44-1962  
18 based upon the following conduct:

19 a) RESPONDENT violated §§ 44-1841 and 44-1991 of the Securities Act  
20 within the meaning of A.R.S. § 44-1962(A)(2).

21 b) RESPONDENT engaged in dishonest or unethical practices within the  
22 meaning of A.R.S. § 44-1962(A)(10) as defined by A.A.C. R14-4-  
23 130(A)(17). Specifically, RESPONDENT's sales of the described securities  
24 were not recorded on the records of Oak Tree, the dealer with whom he was  
25 registered at the time of at least two transactions from August to December  
26 1999.



1 Payment shall be made by cashier's check or money order payable to the "State of Arizona" to be  
2 placed in an interest-bearing account maintained and controlled by the Arizona Attorney General.  
3 The Arizona Attorney General shall disburse the funds on a pro rata basis to investors. Any funds  
4 that the Attorney General is unable to disburse shall revert to the state of Arizona.

5 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that RESPONDENT shall pay  
6 administrative penalties in the amount of \$25,000. Payment shall be made in full by cashier's  
7 check or money order on the date of this Order, payable to the "State of Arizona." Any amount  
8 outstanding shall accrue interest at the rate of 10% per annum from the date of this Order until paid  
9 in full.

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1 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-1962, that RESPONDENT's  
2 securities salesman registration is revoked.

3 IT IS FURTHER ORDERED that this Order shall become effective immediately. All  
4 restitution and penalties payments are due upon entry of this Order.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION  
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9 CHAIRMAN

COMMISSIONER

COMMISSIONER

10 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,  
11 Executive Secretary of the Arizona Corporation  
12 Commission, have hereunto set my hand and caused the  
13 official seal of the Commission to be affixed at the Capitol,  
14 in the City of Phoenix, this \_\_\_\_\_ day of  
15 \_\_\_\_\_, 2001.

16 \_\_\_\_\_  
17 BRIAN C. McNEIL  
18 Executive Secretary

19 DISSENT

20 This document is available in alternative formats by contacting Shelly M. Hood, ADA Coordinator,  
21 voice phone number 602-542-3931, E-mail [shood@cc.state.az.us](mailto:shood@cc.state.az.us).

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**CONSENT TO ENTRY OF ORDER**

1  
2 1. Respondent Wallace Butterworth, individually and doing business as Butterworth  
3 Advisory Services and Senior Advisory Services ("RESPONDENT"), admits the jurisdiction of the  
4 Commission over the subject matter of this proceeding. RESPONDENT acknowledges that he has  
5 been fully advised of his rights to a hearing to present evidence and call witnesses and  
6 RESPONDENT knowingly and voluntarily waives any and all rights to a hearing before the  
7 Commission and all other rights otherwise available under Article 11 of the Securities Act and Title  
8 14 of the Arizona Administrative Code. RESPONDENT acknowledges that this Order To Cease  
9 And Desist, Order for Restitution, Order for Administrative Penalties, Order of Revocation and  
10 Consent to Same ("Order") constitutes a valid final order of the Commission.

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

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

16 4. RESPONDENT acknowledges that he has been represented by counsel in this  
17 matter, he has reviewed this Order and understands all terms it contains.

18 5. RESPONDENT admits only for purposes of this proceeding and any other  
19 administrative proceedings before the Commission or any other agency of the state of Arizona, the  
20 Findings of Fact and Conclusions of Law contained in this Order.

21 6. By consenting to the entry of this Order, RESPONDENT agrees not to take any  
22 action or to make, or permit to be made, any public statement denying, directly or indirectly, any  
23 Finding of Fact or Conclusion of Law in this Order or creating the impression that this Order is  
24 without factual basis. RESPONDENT will undertake steps necessary to assure that all of his agents  
25 and employees understand and comply with this agreement. Nothing in this provision affects  
26

1 RESPONDENT's testimonial obligations or right to take legal positions in litigation in which an  
2 administrative agency of the state of Arizona is not a party.

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

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

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

12 10. RESPONDENT agrees that he will never apply to the state of Arizona for  
13 registration as a securities dealer or salesman or for licensure as an investment adviser or  
14 investment adviser representative.

15 11. RESPONDENT agrees that he will not offer or sell, directly or indirectly, securities or  
16 provide investment advisory services, within or from Arizona.

17 12. RESPONDENT agrees that he will not exercise any control over any entity or person  
18 that offers or sells, directly or indirectly, securities or provides investment advisory services, within  
19 or from Arizona.

20 13. RESPONDENT agrees that until restitution and penalties are paid in full,  
21 RESPONDENT will notify the Director of the Securities Division within 30 days of any change in  
22 home address or any change in RESPONDENT's ability to pay amounts due under this Order.

23 14. RESPONDENT understands that default shall render him liable to the Commission  
24 for its costs of collection and interest at the maximum legal rate.

25 15. RESPONDENT agrees that he will continue to cooperate with the Securities  
26 Division including, but not limited to, providing complete and accurate testimony at any hearing in

Docket No. S-03444A-01-0000

1 this matter and cooperating with the state of Arizona in any related investigation or any other  
2 matters arising from the activities described in this Order.

3 16. RESPONDENT consents to the entry of this Order and agrees to be fully bound by  
4 its terms and conditions. If RESPONDENT breaches any provision of this Order, the Commission  
5 may vacate this Order and restore this case to its active docket.

6  
7   
8 WALLACE BUTTERWORTH

9  
10 SUBSCRIBED AND SWORN TO BEFORE me this \_\_\_\_\_ day of \_\_\_\_\_, 2001.

11  
12 \_\_\_\_\_  
13 NOTARY PUBLIC

14 My Commission Expires:  
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