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JIM IRVIN
COMMISSIONER

MARC SPITZER
COMMISSIONER



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BRIAN C. McNEIL
EXECUTIVE SECRETARY

MARK SENDROW
DIRECTOR

SECURITIES DIVISION
1300 West Washington, Third Floor
Phoenix, AZ 85007-2996
TELEPHONE: (602) 542-4242
FAX: (602) 594-7470
E-MAIL: accsec@ccsd.cc.state.az.us

ARIZONA CORPORATION COMMISSION

OPEN MEETING ITEM

MEMORANDUM

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

FROM: Mark Sendrow
 Director of Securities

DATE: August 15, 2001

RE: Richard James Jones, S-03404A-01-0000

CC: Brian C. McNeil, Executive Secretary

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The Division filed a Notice of Opportunity For Hearing Regarding Proposed Order For Relief on April 26, 2001 against Richard James Jones ("Jones"). Jones was served by personal service on April 27, 2001. Jones requested a hearing, through counsel, on May 10, 2001.

Jones is an Arizona licensed Chiropractor. Starting in about 1997 through 1998, Jones began soliciting his patients to invest in two different investment programs. The first program, Petroleum Resources was an oil and gas investment operated by William McRae ("McRae"). The second program Jones offered was in Dennel Finance operated by Ben Cook ("Cook").

After Jones described the Petroleum Resources investment to a potential investor, Jones would refer the person to McRae who would describe the investment further and take the investor's funds. Jones referred at least seven people who invested \$610,000 in Petroleum Resources. Jones received \$1,500.00 and stock in Petroleum Resources. Jones provided documentation indicating that he voluntarily turned the stock back to the company prior to the Division's investigation.

The investments in Dennel Finance operated the same way. If someone expressed an interest in the investment, Jones would refer the person to Cook or Michael Patrick. Jones referred approximately twelve investors who invested \$1,011,000 in Dennel Finance.

Jones did not invest in Petroleum Resources. Jones invested in \$310,500 in Dennel Finance. At no time did Jones have access to the funds invested in either investment opportunity. Jones' role was to find investors for the programs.

In 2000, the Division and the Attorney General's Office obtained a finding of contempt against McRae for the Petroleum Resources investment. However, since the McRae still owes the investors in the 1996 investment, the Court did not order restitution until such time as funds are available to pay the restitution. At this time, the state has found no assets to seize on behalf of the McRae investors.

The Dennel Finance matter is in the hands of a Receiver appointed by the District Court in Texas in a matter filed by the Securities and Exchange Commission. The investors will receive funds from the receiver. In addition, the criminal matter against Cook is still pending and the state is seeking criminal restitution.

The attached Order to Cease and Desist, Order for Administrative Penalties and Consent to Same orders Jones to cease and desist from violating the Arizona Securities Act. In addition, Jones consents to not recommend, offer, sell, or promote securities without registration or a valid exemption.

Jones will pay an administrative penalty in the amount of \$5,000 and disgorgement of \$1,500.00 for the funds he received in the Petroleum Resources matter. In the Dennel matter, Jones has lost his investment totaling \$188,000.00.

Actions have been filed against the responsible parties in the Petroleum Resources matter, McRae, Stephen Johnson (ACC Decision # 63874, dated July 25, 2001) and now, Jones.

The SEC and the Arizona Attorney General's Office have taken action against the principals in Dennel Finance and the company and its assets are in control of a receiver. The receiver is locating and seizing assets on behalf of the investors. The interests of the investors are being served.

The Division believes that this Order is in the best interests of the state of Arizona and recommends that the Commission accept the proposed consent.

Originator: Wendy Coy

AG: Moira McCarthy

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 WILLIAM A. MUNDELL
4 Chairman
5 JIM IRVIN
6 Commissioner
7 MARC SPITZER
8 Commissioner

9 In the matter of
10
11 RICHARD JAMES JONES
12 11402 E. Aster Dr.
13 Scottsdale, Arizona 85259
14
15 Respondent.

) DOCKET NO. S-03404A-01-0000

) DECISION NO. _____

) **ORDER TO CEASE AND DESIST, ORDER
FOR ADMINISTRATIVE PENALTIES AND
CONSENT TO SAME
BY: RICHARD JAMES JONES**

16 RESPONDENT RICHARD JAMES JONES elects to permanently waive any right to a
17 hearing and appeal under Articles 11 and 12 of the Securities Act of Arizona, A.R.S. § 44-
18 1801 *et seq.* ("Securities Act") with respect to this Order To Cease And Desist, Order For
19 Administrative Penalties and Consent to Same ("Order"). RESPONDENT admits the
20 jurisdiction of the Arizona Corporation Commission ("Commission"); neither admits nor
21 denies the Findings of Fact and Conclusions of Law contained in this Order; and consents
22 to the entry of this Order by the Commission.

23 **I.**

24 **FINDINGS OF FACT**

25 1. Beginning in the fall of 1997, JONES offered and sold interests in two
26 investment programs. The first program involved the offer and sale of fractional
undivided interests in oil and gas. JONES offered and sold to at least seven people who
invested at least \$610,000.00. The oil and gas interests were in Petroleum Resources
L.L.C. William McRae ("McRae") was in control of the L.L.C. McRae was the subject of a
civil action filed by the state of Arizona and the Arizona Corporation Commission (CV 95-

1 02582, *State of Arizona and the Arizona Corporation Commission vs. William McRae et al.*)

2 McRae was permanently enjoined from offering and selling securities.

3 2. Throughout 1998, JONES offered and sold an investment program involving
4 the sale of prime bank investments by Dannel Finance and Ben Cook. JONES sold to
5 approximately 12 investors who invested at least \$ 1,011,000.00. JONES invested over
6 \$310,000.00 in Dannel Finance and subtracting any commissions and interest payments
7 received by JONES, he personally lost over \$188,000.00. The SEC has taken action
8 against Dannel Finance and Ben Cook and a receiver has been appointed (*Securities and*
9 *Exchange Commission vs. Benjamin Franklin Cook et al.*, 3:99-CV-0571-R (N. Dist. Tex.)).
10 The Arizona Attorney General's Office filed a civil forfeiture action against Dannel Finance
11 and Ben Cook (CV 99-06800, *In The Matter Of: 35808 N. Pima Road, Scottsdale, Arizona ,*
12 *Et Al., As More Particularly Described In The Attached Appendix One*), and the grand jury
13 indicted Ben Cook for activities surrounding the sale of investments through Dannel
14 Finance (CR 2000-013043, *State v. Benjamin Franklin Cook*).

15 3. JONES is a licensed chiropractor in the state of Arizona. Most of the
16 investors that JONES solicited in the two programs were patients. In most cases, the
17 discussion of the investments took place while JONES was administering treatment to his
18 patients.

19 OIL AND GAS INTERESTS

20 4. Beginning in the fall of 1997, JONES approached a number of his
21 chiropractic patients to invest in an oil and gas program by the name of Petroleum
22 Resources L.L.C.¹ ("Petroleum Resources") operated by McRae. JONES told offerees and
23 investors that he had invested in Petroleum Resources and thought it was a good
24 investment. According to a number of investors, JONES held up a \$1,500.00 certified
25

26 ¹ Petroleum Resources L.L.C. was formerly known as American Petroleum L.L.C. McRae
changed the name almost immediately after beginning the offering to Petroleum Resources L.L.C.

1 check claiming that he had already begun receiving a return from Petroleum Resources,
2 when in fact, JONES had not invested, and the check was for a purpose other than a
3 return on an investment.

4 5. Once the patients expressed an interest in the investment, JONES provided
5 their names to McRae. McRae would then contact the potential investors and set up a
6 meeting. JONES attended the investment meetings between the offerees and McRae.

7 6. Even though JONES represented to investors that he personally invested in
8 Petroleum Resources, JONES never invested in Petroleum Resources. When confronted
9 by the investors, JONES admitted that he did not personally invest in the oil and gas
10 program. JONES stated that he planned to invest but was unable to transfer his IRA
11 account to the investment. JONES received stock and at least \$1,500.00 in consulting
12 fees for referring investors to McRae.

13 7. The Arizona Corporation Commission and the Attorney General's Office filed
14 a civil action against McRae in 1995 for the offer and sale of oil and gas interests. McRae
15 was ordered to pay over \$2 million in restitution to investors in the earlier program. Only
16 \$10,000 was paid. The Petroleum Resources program was very similar to the earlier
17 program offered and sold by McRae. To the Division's knowledge, none of the oil and gas
18 programs offered and sold by McRae have returned funds to the investors.

19 8. In connection with the Petroleum Resources investments, JONES
20 misrepresented to offerees and investors that he was an investor when in fact, JONES did
21 not invest in the oil and gas program.

22 9. In connection with the Petroleum Resources investments, JONES
23 misrepresented to offerees and investors that he received a return on his investment in
24 Petroleum Resources by displaying a check to the offerees and investors when in fact,
25 JONES had not invested.
26

BOTH INVESTMENTS

17. According to the investors, they would not have invested if JONES had not represented that the investments were good. JONES represented to at least one investor that they would be able to retire on the two investments.

18. The investors stated that they believed JONES to be a caring health care professional. They believed that JONES was concerned about their health and that was the reason he was informing them about these investments. In some instances, the investors were not aware that JONES would receive a benefit for referring investors to a program.

19. JONES failed to disclose to some offerees and investors that he was to benefit by either cash or stock by referring investors to the different investment programs.

II.

CONCLUSIONS OF LAW

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

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

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

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

5. RESPONDENT violated A.R.S. § 44-1991 by (a) employing a device, scheme or artifice to defraud, (b) making untrue statements or misleading omissions of material facts, and (c) engaging in transactions, practices or courses of business which operate or would operate as a fraud or deceit.

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

2 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

3
4
5 CHAIRMAN

COMMISSIONER

COMMISSIONER

6 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,
7 Executive Secretary of the Arizona Corporation
8 Commission, have hereunto set my hand and caused
9 the official seal of the Commission to be affixed at
10 the Capitol, in the City of Phoenix, this _____ day
11 of _____, 2001.

12 _____
13 BRIAN C. McNEIL
14 Executive Secretary

15 _____
16 DISSENT

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

19 (wlc)

CONSENT TO ENTRY OF ORDER

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

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

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

17 4. RESPONDENT RICHARD JAMES JONES acknowledges that he has been
18 represented by counsel in this matter, he has reviewed this Order with his attorney and
19 understands all terms it contains.

20 5. RESPONDENT RICHARD JAMES JONES neither admits nor denies the
21 Findings of Fact and Conclusions of Law contained in this Order. RESPONDENT RICHARD
22 JAMES JONES agrees that he shall not contest their validity in any present or future
23 administrative proceeding before the Commission.

24 6. By consenting to the entry of this Order, RESPONDENT RICHARD JAMES
25 JONES agrees not to take any action or to make, or permit to be made, any public
26 statement denying, directly or indirectly, any Finding of Fact or Conclusion of Law in this

1 Order or creating the impression that this Order is without factual basis. RESPONDENT
2 RICHARD JAMES JONES will undertake steps necessary to assure that all of his agents
3 and employees understand and comply with this agreement. Nothing in this provision
4 affects RESPONDENT RICHARD JAMES JONES' testimonial obligations or right to take
5 legal positions in litigation in which the Commission is not a party.

6 7. While this Order settles this administrative matter between RESPONDENT
7 RICHARD JAMES JONES and the Commission, RESPONDENT RICHARD JAMES JONES
8 understands that this Order does not preclude the Commission from instituting other
9 administrative proceedings based on violations that are not addressed by this Order.

10 8. RESPONDENT RICHARD JAMES JONES understands that this Order does not
11 preclude the Commission from referring this matter to any governmental agency for
12 administrative, civil, or criminal proceedings that may be related to the matters addressed
13 by this Order.

14 9. RESPONDENT RICHARD JAMES JONES understands that this Order does not
15 preclude any other agency or officer of the state of Arizona or its subdivisions from
16 instituting administrative, civil or criminal proceedings that may be related to matters
17 addressed by this Order.

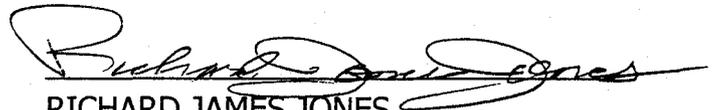
18 10. RESPONDENT RICHARD JAMES JONES understands that default shall render
19 him liable to the Commission for its costs of collection and interest at the maximum legal
20 rate.

21 11. RESPONDENT RICHARD JAMES JONES understands that he is not to
22 recommend, offer, sell or promote any securities without registration or an available
23 exemption, whether or not it is for any compensation or other benefit.

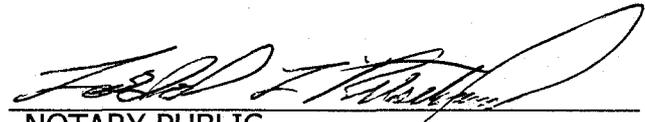
24 12. RESPONDENT RICHARD JAMES JONES agrees that he will continue to
25 cooperate with the Securities Division including, but not limited to, providing complete
26 and accurate testimony at any hearing in this matter and cooperating with the state of

1 Arizona in any related investigation or any other matters arising from the activities
2 described in this Order.

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

7
8 
9 RICHARD JAMES JONES

10
11 SUBSCRIBED AND SWORN TO BEFORE me this 14th day of August,
12 2001.

13
14 
15 NOTARY PUBLIC

16 My Commission Expires:

