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BEFORE THE ARIZONA CORPORATION

IN THE MATTER OF:)
)
 TURN TWO TRADING CLUB)
 1023 N. Sparrow Drive)
 Higley, AZ 85236)
)
 DENNIS WAYNE LITTLE)
 1023 N. Sparrow Drive)
 Higley, AZ 85236)
)
 DEBORAH L. SORENSEN LITTLE)
 1023 N. Sparrow Drive)
 Higley, AZ 85236)
)
 Respondents.)
)

DOCKET NO.
S-03502A-02-0000

PREHEARING
CONFERENCE

At: Phoenix, Arizona

Date: October 8, 2002

Filed: OCT 15 2002

REPORTER'S TRANSCRIPT OF PROCEEDINGS

ARIZONA REPORTING SERVICE, INC.
 Court Reporting
 Suite Three
 2627 North Third Street
 Phoenix, Arizona 85004-1103

By: CAROLYN T. SULLIVAN, RPR
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 Certificate No. 50528

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1 BE IT REMEMBERED that the above-entitled and
2 numbered matter came on regularly to be heard before
3 the Arizona Corporation Commission, 1200 West
4 Washington Street, Phoenix, Arizona, commencing at
5 9:00 a.m., on October 8, 2002.

6

7 BEFORE: MARC E. STERN
8 Administrative Law Judge

8

9 APPEARANCES:

10 For the Securities Division:

11 Ms. Wendy L. Coy
12 Assistant Director of Enforcement
13 Securities Division
14 1300 West Washington
15 Phoenix, Arizona 85007

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For the Respondents:

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16 Mr. Guy David Knoller
17 2828 North Central, Suite 1110
18 Phoenix, Arizona 85004

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CAROLYN T. SULLIVAN, RPR
CCR No. 50528

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1 ALJ STERN: This prehearing conference is now
2 open in the matter of Turn Two Trading Club, et al.,
3 in Docket No. S-03502-02-0000. My name is Marc Stern.
4 I'll preside over this proceeding today.

5 At this time we'll take appearances. And on
6 behalf of the Division.

7 MS. COY: Wendy Coy for the Division.

8 ALJ STERN: And on behalf of the respondents.

9 MR. KNOLLER: Guy Knoller, Your Honor.

10 ALJ STERN: Okay. This is a temporary order
11 case, and we're under a bit of a time frame to process
12 these normally. In that respect, I don't know --
13 Mr. Knoller, I don't know whether you're familiar with
14 all the things the Division does or how they prepare
15 and present these cases and how much time will be
16 involved.

17 And I was going to also ask the Division if
18 we're going to be setting this for hearing if they
19 possibly have a location because we're really backed
20 up with hearings and special open meetings between now
21 and the end of this year for this room, that room, and
22 the conference room upstairs.

23 MS. COY: When you say "that room," the one
24 across at 1500?

25 ALJ STERN: Hearing Room 2.

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1 So we're going to be hurting for space. And
2 I know the month of November and probably the first
3 week of December, and I expect it will go on, I don't
4 know for sure, Scottsdale Financial, which is another
5 Division case, might occupy my time. So we would
6 probably be in December or in the beginning of January
7 in order to get this case, you know, moving. And I
8 just didn't know whether you all had had a chance to
9 talk to each other to resolve the issues or where you
10 were at that way, also.

11 I notice there was an answer filed, and I
12 don't know what's going on.

13 Mr. Knoller, have you had a chance to talk to
14 Ms. Coy about the issues here?

15 MR. KNOLLER: More or less, Your Honor.
16 We're in constant communication. We are trying to
17 informally resolve the matter if that's possible.
18 We're still waiting to bring down accounting to
19 determine where we stand.

20 ALJ STERN: How close do you think you might
21 be to resolution? We can set it for a hearing at this
22 point. There's not much else we can do, but how much
23 time do you need before we go to hearing? Is December
24 or January better for you?

25 MS. COY: January's better just because of

1 the holidays and I'm planning an out-of-town trip the
2 last two weeks of December.

3 ALJ STERN: Just let me compute something
4 here.

5 We're already at 120 days in December on this
6 temporary order. Would the respondent be willing
7 to -- the respondents be willing to stipulate to a
8 waiver of the requirement that there's a final
9 Commission decision on this in 180 days?

10 MR. KNOLLER: I don't think so, Your Honor.
11 I'll have to check with my client who is due here at
12 9:00. He must be looking for the place right now.

13 ALJ STERN: The Commission can actually
14 suspend these rules either way. Usually what happens
15 in cases such as this where there is a temporary order
16 imposed by the Commission, the Division, it's based on
17 ongoing activities of the respondents and they're
18 trying to prevent further harm to investors as they
19 allege in their notice. And if the parties aren't
20 willing to agree to something, I might have to set a
21 hearing all that much sooner or just suspend the rule
22 myself. Or the Division can make a motion that it be
23 suspended. The provisions there, we usually like to
24 have an agreement between the parties, especially if
25 you're going to try and settle the thing.

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1 Have you had a chance to explore any
2 settlement? Do you need a few minutes?

3 MS. COY: The thing that's holding everything
4 up right now is a final accounting to know how much
5 money was actually invested, how much went back to
6 investors, and how much is still there because there
7 is over a million dollars to be able to distribute to
8 the investors. We are willing to distribute that
9 prior to the legal issues being settled so the
10 investors can get their money back. The problem is
11 we're waiting on bank records to confirm deposits,
12 withdrawals, things like that. And we've got about a
13 50 percent response rate from the investors at this
14 point.

15 We're trying to confirm a lot of Mr. Little's
16 information. He's working on an accounting, also. So
17 it's difficult to say we can resolve anything until we
18 get the final accounting and know what happened in the
19 money. But I think we can work something out once we
20 have an idea of everything that has taken place.

21 ALJ STERN: And if I understand this case,
22 this is a -- I guess an investment club? Is that the
23 way it's worked?

24 MR. KNOLLER: That's our position, certainly,
25 Your Honor.

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1 ALJ STERN: I'm not sure even in and of
2 itself if that exempts them from our regulation.
3 That's, I guess, the Division's position they aren't
4 exempt, and there's a lot of them out there, I know.

5 MS. COY: Our position is that this
6 particular entity which is termed an investment club
7 is not really under the true definition of an
8 investment club.

9 ALJ STERN: Okay.

10 MS. COY: And that, therefore, they are
11 required to register under our statutes, which is our
12 argument.

13 ALJ STERN: All right. Why don't I do this.
14 I just want to take a quick look and make sure on our
15 calendar we don't have an arrangement where we can
16 work something on some of the rooms here. I know I
17 asked before I came in here, but I didn't actually
18 look at the calendar. I think, like I say, the
19 earliest I can probably do this case other than this
20 month is probably December if Scottsdale Financial
21 goes forward. If Scottsdale Financial goes forward, I
22 can put this into November very easily. So let me
23 take a look.

24 How many witnesses does the Division think
25 they'll call?

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1 MS. COY: The Division is probably going to
2 have approximately four witnesses, our investigator,
3 our accountant, and possibly a couple investors. If
4 necessary, there might be a fifth witness, an expert
5 on investment clubs and things. But we anticipate our
6 portion of the hearing only being about a day and a
7 half, two days at the most.

8 ALJ STERN: Oh, that's good.

9 And what would the respondents present in the
10 way of evidence?

11 MR. KNOLLER: We're thinking of up to ten
12 witnesses, Your Honor, but we're also thinking it
13 would only be about two days.

14 ALJ STERN: Ten of your own witnesses?

15 MR. KNOLLER: Ten of the club members,
16 including the respondents.

17 ALJ STERN: Well, I'd set it for a week if
18 we're going to have up to 15 witnesses just so I know
19 I'd have the coverage.

20 MS. COY: Your Honor, it may be possible to
21 get the hearing room at the AG's office, the one
22 kitty-corner from us.

23 ALJ STERN: If Scottsdale Financial goes
24 away, right now that's where we're scheduled to hold
25 that hearing. But only if that hearing would cancel.

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1 And then again, we're still subject to the limitations
2 of the 15th Avenue, that south 15th Avenue building
3 that the Attorney General gets the room if they need
4 it, and they can kick us out at any time. So I don't
5 like that building, but we don't have very many
6 options. So let me check our calendar and we'll go
7 off the record. And in the meantime, maybe your
8 client will show up.

9 (Recess taken.)

10 ALJ STERN: We've had a brief off-the-record
11 discussion while I've checked the availability of
12 hearing dates and the Division's counsel and
13 Mr. Knoller, counsel for the respondents, have agreed
14 that December 16th, 17th, and 18th would be available
15 for hearing in this proceeding. If additional days of
16 hearing are required, we will schedule them at that
17 time. And they'd probably be in the month of January.

18 Additionally, the parties have been told that
19 14 days prior to the proceeding starting on or about I
20 guess it would be December 2nd, which is a Monday,
21 exchange witness and exhibit lists with a copy to
22 myself, of course.

23 Other than that, I can't think of anything
24 further. If there is a possibility of a resolution
25 between the parties, notify me, and we'll continue the

1 hearing.

2 And with that, unless anyone has anything
3 else to add at this time, we'll conclude this matter.

4 MR. KNOLLER: Your Honor, if there is an
5 impediment to have it in November because of the
6 pendency of a different case, if that case settles or
7 is otherwise off the calendar, I'd request that we
8 move ours up.

9 ALJ STERN: A case related to this?

10 MR. KNOLLER: No, yours.

11 ALJ STERN: Well, if, in fact, my case goes
12 away, there is a possibility we could do it in
13 November. That's a possibility. It just depends. I
14 may not know until like the last minute where we're
15 going to be with that, so it's sort of hard to
16 schedule, and I don't know what your schedule is. Are
17 you open in the month of November?

18 MR. KNOLLER: I could be open.

19 ALJ STERN: All month?

20 MR. KNOLLER: Well, a good part of it.

21 ALJ STERN: How about you, Ms. Coy?

22 MS. COY: I'm pretty open in November.

23 ALJ STERN: Well, we might have to do
24 something by teleconference. If we can work something
25 into November, that's a possibility. I wouldn't have

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1 any problems with that.

2 With that, we'll conclude -- before we
3 conclude, are you still not willing to suspend the
4 application of the 180-day rule here, Mr. Knoller?

5 MR. KNOLLER: I don't see any reason to, Your
6 Honor. Let me suggest to you that the club is not
7 operating. The club has no intention of operating.
8 There's no reason for suspending the rule or
9 continuing the order. The money in the accounts has
10 been impounded in effect. I don't think the public is
11 threatened in any way. We'd just like to have a fast
12 hearing under the rules.

13 ALJ STERN: Okay. With that, we'll recess
14 this matter until the scheduled hearing date of
15 December 16th. I'll put out a procedural order that
16 confirms the hearing date and the exchange of witness
17 and exhibit lists. If anything comes up in the
18 meantime, let us know. The hearing will just
19 essentially be at the offices here of the Commission.
20 I don't know where in particular, what room. You may
21 want to check with the Hearing Division the week after
22 the hearing or with Ms. Coy as to what location her
23 Division has found for us. Let me know on that,
24 because we don't have a place over here.

25 MS. COY: I'll do some checking.

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1 ALJ STERN: With that, we'll recess this
2 matter, and that concludes today's prehearing
3 conference. Thank you.

4 (The prehearing conference concluded at 9:20
5 a.m.)

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1 STATE OF ARIZONA)
2 COUNTY OF MARICOPA) ss.

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4 I, CAROLYN T. SULLIVAN, Certified Court
5 Reporter No. 50528 for the State of Arizona, do hereby
6 certify that the foregoing printed pages constitute a
7 full, true and accurate transcript of the proceedings
8 had in the foregoing matter, all done to the best of
9 my skill and ability.

10 WITNESS my hand this 10th day of October,
11 2002.

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Carolyn T. Sullivan
CAROLYN T. SULLIVAN, RPR
Certified Court Reporter
Certificate No. 50528

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