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BY HAND DELIVERY

March 16, 2012

Docket Control  
Arizona Corporation Commission  
1200 West Washington  
Phoenix AZ 85007

Arizona Corporation Commission

**DOCKETED**

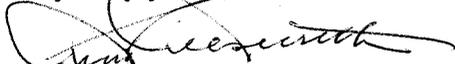
MAR 16 2012

DOCKETED BY 

Re: In the matter of Out of the Blue LLC, et al.  
Your Docket No. S-20837A-12-0061

With this I hand you an original and nine copies of the Answer of the Respondents in the referenced matter.

Very truly yours,



Arthur P. Allsworth

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2012 MAR 16 A 10:09  
AZ CORP COMMISSION  
DOCKET CONTROL

ORIGINAL

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2012 MAR 16 A 10: 09

AZ CORP COMMISSION  
DOCKET CONTROL

5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7  
8 **In the matter of:**

) Docket No. S-20837A=12-0061 \*

9 **OUT OF THE BLUE PROCESSORS, LLC**, an )  
Arizona limited liability company, d/b/a Out of )  
10 the Blue Processors II, LLC; )

**ANSWER**

11 and )

12 **MARK STEINER and SHELLY STEINER,** )  
13 husband and wife. )

14 Respondents )  
15 )  
16 )

17 Answering the allegations of the Temporary Restraining Order and Notice of  
18 Opportunity for Hearing (the "TRO") dated February 22, 2012, Out of the Blue  
19 Processors LLC doing business as Out of the Blue Processors II, LLC (collectively,  
20 "Blue") and its managers, (collectively "Respondents"), admit, deny and allege as  
21 follows, (paragraph numbers correspond to the numbers in the TRO):  
22

23  
24 1. Respondents deny knowledge sufficient to form a belief regarding  
25 whether the allegations of paragraph 1 are true and therefore deny the same.  
Federal preemption of Arizona regulation of the acts of Blue and its managers may

1 be established pursuant to section 18 of the Securities Act of 1933, as amended  
2 (the "Act") and to the holding of the Arizona Court of Appeals in, *Arizona*  
3 *Corporation Commission v. Media Products, Inc.*, 158 Ariz. 463, 763 P.2d 527  
4 (1988). Respondents respectfully suggest that until Respondents have had an  
5 opportunity to demonstrate that their acts were not subject to the Commission's  
6 jurisdiction, because of such federal preemption or otherwise, the investigative  
7 aspects of the "matter" should be limited to a determination of whether the  
8 Commission has alleged facts sufficient to form a reasonable basis for asserting its  
9 jurisdiction to investigate fraud or deceit with respect to the acts of the  
10 Respondents. Respondent's assert the Commission failed to allege such a factual  
11 base.  
12

13  
14  
15 (a) Respondents did not solicit the interest of the unnamed person  
16 referred to by the Commission as the "Arizona resident" and made no offer to  
17 sell and did not solicit an offer to buy or sell to the unnamed "Arizona  
18 resident on or prior to February 22, 2012, when the Commission issued its  
19 TRO. Respondents further allege that the person alleged by the Commission  
20 to be an "Arizona resident" represented herself to Respondent Mark Steiner to  
21 be calling from Seattle, Washington where she was there involved both in a  
22 divorce proceeding and with the sale of a business enterprise, causing him  
23 reasonably to believe she was at the time a resident of Washington State.  
24  
25

1 Respondent Mark Steiner received a phone call from that person (the "Seattle  
2 caller"), a total stranger, who represented that an unidentified friend had  
3 given her a personal letter which spoke of an investment opportunity in China  
4 and she was seeking information about that opportunity. Respondent Mark  
5 Steiner provided the information he was asked for, but made a clear  
6 statement that he would have to meet with the "Seattle caller" before  
7 proceeding with a transaction. Respondent Mark Steiner was served with the  
8 TRO at a time and place where a meeting with the "Seattle caller" had been  
9 arranged for the purpose of evaluating her suitability as an investor and to  
10 provide detailed information about Blue's investment opportunity, if she  
11 proved to be a suitable investor, and before any such information could be  
12 exchanged. On information and belief, Respondents allege the Commission is  
13 misinformed about the state of residence of that person and also the  
14 genuineness of her seeking to invest in Respondents' investment opportunity.  
15  
16  
17  
18

19 (b) Section 18 of the Act forbids states from regulating certain  
20 transactions in securities as described in the Act, but permits states to  
21 investigate and deal with "fraud and deceit." Respondents here assert that  
22 the Commission failed to allege facts that show any basis whatever for  
23 asserting that Respondents are engaged in fraudulent or deceitful activities.  
24  
25

1 (c) Respondents' Answer and the Subpoena response of Blue are  
2 based on Respondents' belief (i) that Section 18 of the Act prohibits any  
3 attempt by the Commission to regulate Respondents' transactions and (ii)  
4 that no fraud or deceit has occurred or will occur in connection with its  
5 activities. Respondents assert, therefore, that those aspects of the  
6 Commission's investigation which seek to establish facts related to the  
7 conformance of Respondent's acts to regulatory provisions of the Arizona  
8 Securities Act and the Commission's regulations are premature and that the  
9 information on the basis of which the Commission entered the TRO was  
10 insufficient to establish even a reasonable suspicion of fraud or deceit. In the  
11 absence of some unspecified presumption of evil based on the amounts  
12 discussed and the involvement of persons in foreign nations, no fact alleged  
13 in the Commission's TRO suggests actual or statutory fraud had occurred.  
14 The law does not imply fraud whenever large sums of money and substantial  
15 returns on investment are involved or when the transactions discussed are  
16 with business enterprises, whether or not state owned.  
17  
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22 (d) In the interest of full disclosure and cooperation with the  
23 Commission, Respondents have submitted in response to the Commission's  
24 February 22, 2012 Subpoena, detailed information demonstrating that a  
25 document furnished to the "Seattle caller" and described as an executive

1 summary is a true and correct statement of actual facts. That information is  
2 incorporated by reference by paragraph 28, *infra*, and is referred to also in  
3 paragraph 18, *infra*. Respondents believe that information should satisfy the  
4 Commission that no fraud or deceit is involved in connection with Blue's  
5 investment opportunity.  
6

7  
8 2. Respondents admit the allegations of paragraph 2 of the TRO, except  
9 deny knowledge of the reference "CRD# 1834102" and therefore deny any portion  
10 of the allegation growing from the meaning of that reference.  
11

12 3. Respondents admit the allegations of paragraph 3 of the TRO.

13 4. Respondents admit the allegations of paragraph 4 of the TRO and note  
14 that the collective reference is adopted in these Answers.  
15

16 5. Respondents admit that Respondents are the "managers" of Blue within  
17 the meaning of A.R.S. §29-601 et seq. Respondents deny, however, that  
18 Respondents are "members" of Blue in the sense of having a material interest in the  
19 capital or profits of Blue.  
20

21 6. Respondents admit the allegations of paragraph 6 of the TRO.

22 7. Respondents acknowledge the collective reference and have adopted it in  
23 these Answers.  
24  
25

1           8. Respondents admit that Shelly Steiner ("Respondent Spouse") is the wife  
2 of Respondent Mark Steiner (hereafter "Respondent Steiner") and deny each other  
3 allegation of paragraph 8 of the TRO.  
4

5           9. The statute speaks for itself at such time as a liability is established.

6           10. Respondents deny knowledge sufficient to form a belief regarding  
7 whether the allegations of paragraph 10 are true and therefore deny the same.  
8

9           11. Respondents deny knowledge sufficient to form a belief regarding  
10 whether the allegations of paragraph 11 are true and therefore deny the same.

11 Respondents allege that on or about that date, Respondent Steiner received a call  
12 from a woman (not previously known to him) who claimed to have received from a  
13 friend a copy of a letter indicating an investment opportunity involving China. The  
14 woman purported to be calling from Seattle, Washington where she was getting a  
15 divorce and selling her business enterprise in a secretive manner, facts that caused  
16 Respondent Steiner to believe that the caller was a resident of Washington State;  
17 that the caller asked for information about the possible investment involving China;  
18 that the caller wanted to act quickly should she decide to invest; and that,  
19 thereafter, Respondent Steiner sent an email to the caller.  
20  
21  
22

23           12. Respondents deny that the partial quotes set forth in the Commission's  
24 allegation at paragraph 12 are full and fair quotations from the text referred to and  
25 assert that portions of the quotations are taken out of context in a fashion which is

1 misleading and unfairly prejudicial to Respondents. Respondent demands that the  
2 full text of the email referred to be supplied and only the unedited full text be used  
3 as evidence of whatever facts the Commission contends follow from it. Respondents  
4 further assert that to the extent the quoted statements are fair excerpts from the full  
5 text, they can be viewed properly only as general information of a kind sufficient only  
6 to enable the recipient to determine whether the recipient would be interested in  
7 further information of a more definite nature and were not an offer to sell or the  
8 solicitation of an offer to buy.  
9  
10

11  
12 13. Respondents deny knowledge sufficient to form a belief regarding  
13 whether the allegations of paragraph 13 are true and therefore deny the same.  
14 Respondent Steiner alleges that he spoke further by phone with the "Seattle caller"  
15 (the person described in Answer paragraph 11, *supra*) and in that phone  
16 conversation the Seattle caller stated that she was interested in making an  
17 investment of around "\$200,000 to \$250,000," because she recently had sold a  
18 business.  
19  
20

21 14. Respondents admit that Respondent Steiner sent by email a redacted  
22 copy of the Blue Operating Agreement to a person who claimed to be in Seattle,  
23 Washington at the time as she was getting a divorce and selling a business interest  
24 there, which Respondent Steiner took to be an indication that she resided in the  
25 State of Washington. Respondents acknowledge that Respondent Steiner sent the

1 "Seattle caller" wire transfer of funds instructions. Respondents deny that those facts  
2 provide a fact basis for asserting that Respondents had made an offer to sell or the  
3 solicitation of an offer to buy a Member Interest in Blue in the absence of a face to  
4 face meeting at which the person's suitability could be determined and a responsible  
5 disclosure of relevant information and an offer to sell might be made. Respondents  
6 deny any other allegation of fact made in paragraph 14 of the TRO.  
7  
8

9 15. Respondents admit the allegations of subparagraphs (a), (c), (d), (f), (g),  
10 (h) and (i) of paragraph 15. With respect to subparagraph (b), Respondents deny  
11 that any reference to 33.33% interest in Blue was offered, or stated would be  
12 offered, to the "Seattle caller" prior to a face to face meeting with Respondent  
13 Steiner and allege that any such reference was to the then remaining availability of  
14 such an interest, which would involve the \$250,000 investment the caller had  
15 earlier indicated she wished to make. With respect to subparagraph (e),  
16 Respondents deny that the word "will" is appropriate, but admit that Respondent  
17 Steiner could properly receive compensation from Blue.  
18  
19  
20

21 16. Respondents admit the allegations of paragraph 16 of the TRO.

22 17. Respondents admit the allegations of paragraph 17 of the TRO.

23 18. Respondents again object to the quotation of excerpts from the  
24 "Executive Summary" sent by Respondent to the "Seattle caller," for the reason that  
25 excerpts may be and usually are taken out of context and as such misleading and do

1 not, therefore, provide appropriate evidence of the facts involved. Respondents  
2 demand that the full text of the Executive Summary provided to the "Seattle caller"  
3 be used to make further evaluations of the truth or falseness of the statements made  
4 therein, all of which Respondents assert are fully and demonstrably true. As  
5 evidence of the truth of such facts, Respondent has included in the evidentiary  
6 materials submitted in response to the Commission's February 22, 2012 Subpoena,  
7 a true, correct and complete copy of the Executive Summary together with detailed  
8 information regarding several of the projects described in the Executive Summary as  
9 "Level I" projects, the present status of the projects for which detailed information is  
10 provided, together with documentary evidence of such status, the persons with  
11 whom Respondents are dealing with respect to such projects in China, Nigeria and  
12 Uganda and the status of such persons, and similar information showing the  
13 genuineness of the projects, the persons and Respondents' relationships. See  
14 Answer paragraph 28, *infra*, where the materials are incorporated by reference.  
15  
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18

19 19. Respondents deny knowledge sufficient to form a belief regarding  
20 whether the allegations of paragraph 19 are true and therefore deny the same.  
21

22 20. Respondents deny knowledge sufficient to form a belief regarding  
23 whether the allegations of paragraph 20 are true and therefore deny the same, but if  
24 the "Seattle caller" is, in fact, the unnamed "Arizona resident," then admit.  
25

1           21. Respondents admit the allegations of paragraph 21 of the TRO, but note  
2 that under federal law preemptive provisions, a manager of a limited liability  
3 company may offer securities of the company without being a broker-dealer.  
4

5           22. Respondents admit the allegations of paragraph 22 of the TRO.

6           23. Respondents deny the allegations of paragraph 23 of the TRO, but admit  
7 that Respondents have solicited expressions of interest in investing in Blue from  
8 persons believed to be suitable investors, subject to full disclosure of the relevant  
9 facts regarding the participants in the projects described in the "Executive  
10 Summary." Respondents further allege that such activities constituted lawful  
11 activities of the manager of a limited liability company offering its securities pursuant  
12 to a federal exemption and the preemptive law of the United States.  
13  
14

15           24. Respondents admit the allegations of paragraph 24 of the TRO.

16           25. Respondents deny the allegations of paragraph 25 of the TRO.

17           26. Respondents deny the allegations of paragraph 26 of the TRO.

18           27. Respondents deny the allegations of paragraph 27 of the TRO.

19           28. In response to the Commission's February 22, 2012 Subpoena  
20 Respondents have supplied a collection of information which should be sufficient for  
21 the purpose of establishing the truth of the statements set forth in the Executive  
22 Summary referred to in paragraph 18 of the TRO. All such material is incorporated  
23 herein by reference. Also included in the Subpoena response is factual information  
24  
25

1 regarding a project not described in the Executive Summary, but which is among the  
2 projects in which investors in Blue will participate, if any or all of such projects  
3 mature, and monies are paid to Lunsford Consulting LLC in respect of them. The  
4 information is supplied for two reasons. First, one of the participants is a company  
5 (The Dream Vision Company, LLC) several of the senior executives of which are well  
6 known former executives of the Disney companies. Second, its inclusion,  
7 notwithstanding that it was not described in the Executive Summary, demonstrates  
8 that other projects not so described are also within the good faith revenue pledge  
9 made to the owners of Member Interests in Blue. For reasons of bulk, expense and  
10 available time before the Commission's February 22, 2012 Subpoena is to be  
11 returned, the materials are not appended to this Answer.  
12  
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14  
15

16 29. Respondents lack sufficient information to provide a factual basis for  
17 alleging any affirmative defense, but reserve the right to amend this Answer, if and  
18 at such time as sufficient information is obtained.  
19

20 30. Respondents allege that no general advertisement of any kind has been  
21 used by the Respondents in reference to an investment in Blue, including, without  
22 limitation, any publication or solicitation of any kind on Craigslist, Facebook or  
23 Twitter or any other social network or media site. Respondents also allege that, all  
24 persons to whom Respondent Steiner has sold, made offers to sell or from whom  
25 Respondent Steiner has solicited an offer to buy a Member Interest in Blue were

1 members of Respondent Steiner's family, friends of long standing through  
2 Respondent Steiner's church, his neighbors, and persons with whom Respondent  
3 Steiner had a prior business relationship or, with the sole exception of the "Seattle  
4 caller," persons referred to Respondent Steiner by such persons. The "Seattle caller"  
5 was a sport because she called Respondent Steiner claiming to have received from a  
6 friend information about the possible investment. Although concerned about  
7 providing information to a stranger, Respondent Steiner provided answers to her  
8 questions with basic information for the purpose of determining her interest in  
9 pursuing the matter further. Respondent Steiner withheld additional information  
10 until they could meet. The information referred to in paragraphs 18 and 28, *supra*, is  
11 the information that Respondent Steiner customarily provided to persons who he  
12 determined after discussion were suitable investors. At no time did Respondent  
13 Steiner agree to sell a Member Interest in Blue to her or seek money from her.  
14  
15  
16  
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18

19 DATED: March 15, 2012.

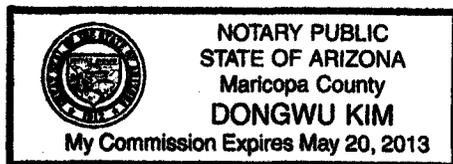
20 Respectfully submitted,

21 

22 Arthur P. Allsworth  
23 Attorney for Respondents  
24  
25

1  
2  
3 VERIFICATION

4 Mark Steiner, being first duly sworn, deposes and says that he is one of the  
5 persons described as a Respondent in the foregoing Answer, that he has read the  
6 foregoing Answer carefully, that he knows the statements set forth therein to be true  
7 to the best of his knowledge, except as to any statements based on knowledge and  
8 belief.



9   
Mark Steiner

10 SUBSCRIBED AND SWORN TO before me by Mark Steiner, whose identity  
11 was established to my satisfaction, on this 15<sup>th</sup> day of March, 2012.

12  
13   
14 Notary Public

15 My commission expires: *May 20<sup>th</sup>, 2013*

16  
17 ORIGINAL filed by HAND DELIVERY on March \_\_, 2012  
18 addressed to:

19 :  
20 Docket Control  
21 Arizona Corporation Commission  
1200 West Washington  
Phoenix AZ 85007

22 Copy served by Mail on March \_\_, 2012  
23 addressed to:

24 Phong (Paul) Huynh  
25 Securities Division  
Arizona Corporation Commission  
1300 West Washington 3<sup>rd</sup> Floor  
Phoenix AZ 85007

