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**COMMISSIONERS**  
DOUG LITTLE - Chairman  
BOB STUMP  
BOB BURNS  
TOM FORESE  
ANDY TOBIN



SECURITIES DIVISION  
1300 West Washington, Third Floor  
Phoenix, AZ 85007  
TELEPHONE: (602) 542-4242  
FAX: (602) 388-1335  
E-MAIL: securitiesdiv@azcc.gov

ORIGINAL

JODI JERICH  
EXECUTIVE DIRECTOR

ARIZONA CORPORATION COMMISSION

MEMORANDUM

**TO:** Doug Little - Chairman  
Bob Stump  
Bob Burns  
Tom Forese  
Andy Tobin

Arizona Corporation Commission

DOCKETED

APR 19 2016

DOCKETED BY [Signature]

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**FROM:** Matthew J. Neubert  
Director of Securities

**DATE:** April 19, 2016

**RE:** Proposed Order to Cease and Desist, Order for Restitution, Order for Administrative Penalties and Consent to Same by Samuel A. Jones, Docket No. S-20948A-15-0422

**CC:** Jodi Jerich, Executive Director

Please find attached a proposed Order to Cease and Desist, Order for Restitution, Order for Administrative Penalties and Consent to Same ("Consent Order") by Samuel A. Jones.

Between February 7, 2010 and January 14, 2011, Mr. Jones violated the Securities Act by selling promissory notes of Shadow Beverages and Snacks, LLC ("Shadow Beverages"), an Arizona limited liability company that Mr. Jones was an officer and manager of. Mr. Jones raised \$550,000 from four investors from the sale of the Shadow Beverages notes. The Shadow Beverages notes were not registered pursuant to Articles 6 or 7 of the Securities Act. The investors have been repaid \$455,000.

In selling the Shadow Beverages notes, Mr. Jones did not disclose to investors: (i) Shadow Beverages' defaults on notes to prior investors, or (ii) the failure of note guarantors to perform on previous guaranties of a Shadow Beverages note. Mr. Jones also misrepresented to one of the investors that Shadow Beverages was not in default on any indebtedness for borrowed money.

In the proposed Consent Order, Mr. Jones admits for purposes of this proceeding and any other proceeding in which the Commission is a party that he violated A.R.S. § 44-1991. He also admits that he violated A.R.S. §§ 44-1841 and 44-1842 by selling unregistered securities in the form of Shadow Beverages notes as an unregistered salesperson or dealer.

The proposed Consent Order requires Mr. Jones to permanently cease and desist from violating the Securities Act; to pay restitution in the principal amount of \$95,000, plus interest from the date of each investor's note purchase; and to pay an administrative penalty in the amount of \$15,000.

The Securities Division believes the proposed Consent Order is appropriate to protect the public welfare.

Originator: Paul Kitchin

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

DOUG LITTLE - Chairman  
BOB STUMP  
BOB BURNS  
TOM FORESE  
ANDY TOBIN

|                                      |   |   |
|--------------------------------------|---|---|
| In the matter of                     | ) |   |
| Shadow Beverages and Snacks, LLC, an | ) | DOCKET NO. S-20948A-15-0422             |
| Arizona limited liability company.   | ) |   |
| Lucio George Martinez and Lisa K.    | ) | DECISION NO. _____                      |
| Martinez, husband and wife.          | ) |   |
| Samuel A. Jones, a married man.      | ) | <b>ORDER TO CEASE AND DESIST, ORDER</b> |
|                                      | ) | <b>FOR RESTITUTION, AND ORDER FOR</b>   |
| Respondents.                         | ) | <b>ADMINISTRATIVE PENALTIES AND</b>     |
|                                      | ) | <b>CONSENT TO SAME</b>                  |
|                                      | ) | <b>BY: SAMUEL A. JONES</b>              |
|                                      | ) |   |

Respondent Samuel A. Jones ("Respondent") elects to permanently waive any right to a hearing and appeal under Articles 11 and 12 of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act") with respect to this Order to Cease and Desist, Order for Restitution, and Order for Administrative Penalties ("Order"). Respondent admits the jurisdiction of the Arizona Corporation Commission ("Commission"); admits only for purposes of this proceeding and any other proceeding in which the Commission is a party the Findings of Fact and Conclusions of Law contained in this Order; and consents to the entry of this Order by the Commission.

**I.**

**FINDINGS OF FACT**

1. Shadow Beverages and Snacks, LLC ("Shadow") is a limited liability company that has been organized under the laws of the state of Arizona since July 2008. Shadow has been based in Arizona since it was created.

1           2.       Since at least June 1, 2009, Samuel A. Jones ("Jones") has been a married man and a  
2 resident of the state of Connecticut. Jones has not been registered by the Commission as a securities  
3 salesman or dealer.

4           3.       Shadow created and built product brands for the beverage and snack industry,  
5 including products such as energy beverages, nutritional supplement beverages, and preserved meat  
6 snacks. It contracted with bottlers to produce products that it sold to retailers. Shadow was a  
7 functioning business when each of the relevant investors invested. Shadow ceased operations in early  
8 2015. At its peak, Shadow had approximately 23 employees.

9           4.       Shadow Beverages is the debtor in an involuntary case filed on June 26, 2015 under  
10 the U.S. Bankruptcy Code, Chapter 7.

11           5.       Jones was a founder of Shadow. Jones was a Shadow officer and member of the  
12 Shadow board of managers when each of the relevant investors invested.

13           6.       On February 17, 2010, an Arizona investor ("Investor B") invested \$50,000 in a  
14 Shadow promissory note. Before investing, this investor was not informed of Shadow's default on a  
15 \$50,000 note to a prior investor. The note offered 25% annual interest and was due on August 17,  
16 2010. Shadow defaulted on this note on that date. Shadow employees personally guaranteed payment  
17 of this note but never personally made any payment for this note. On May 17, 2011, a judgment was  
18 entered in the Maricopa Superior Court against Shadow and other defendants in favor of this investor.  
19 This note was eventually fully paid by Shadow in 2011.

20           7.       Investor B made a second investment, investing \$200,000 more on March 17, 2010,  
21 in a Shadow promissory note. In a loan agreement made in connection with the investment, Shadow  
22 stated that it was not in default on any indebtedness for borrowed money. Actually, Shadow had been  
23 in default on a prior investor's note since December 31, 2009. The note offered 25% annual interest  
24 and was due on September 17, 2010. Shadow defaulted on this note on that date. This note was  
25 eventually fully paid by Shadow in 2011.

26





1 of this Order. Payment shall be made to the "State of Arizona" to be placed in an interest-bearing  
2 account controlled by the Commission. Any principal amount outstanding shall accrue interest at  
3 the rate of 4.25 percent per annum from the date of purchase until paid in full. Interest in the amount  
4 of \$22,321.23 has accrued from the date of purchase to April 14, 2016.

5 The Commission shall disburse the funds on a pro-rata basis to investors shown on the records  
6 of the Commission. Any restitution funds that the Commission cannot disburse because an investor  
7 refuses to accept such payment, or any restitution funds that cannot be disbursed to an investor  
8 because the investor is deceased and the Commission cannot reasonably identify and locate the  
9 deceased investor's spouse or natural children surviving at the time of the distribution, shall be  
10 disbursed on a pro-rata basis to the remaining investors shown on the records of the Commission.  
11 Any funds that the Commission determines it is unable to or cannot feasibly disburse shall be  
12 transferred to the general fund of the state of Arizona.

13 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that Respondent shall pay an  
14 administrative penalty in the amount of \$15,000 as a result of the conduct set forth in the Findings of  
15 Fact and Conclusions of Law. Payment is due in full on the date of this Order. Payment shall be  
16 made to the "State of Arizona." Any amount outstanding shall accrue interest as allowed by law.

17 IT IS FURTHER ORDERED that payments received by the state of Arizona shall first be  
18 applied to the restitution obligation. Upon payment in full of the restitution obligation, payments  
19 shall be applied to the penalty obligation.

20 For purposes of this Order, a bankruptcy filing by Respondent shall be an act of default. If  
21 Respondent does not comply with this Order, any outstanding balance may be deemed in default and  
22 shall be immediately due and payable.

23 IT IS FURTHER ORDERED, that if Respondent fails to comply with this order, the  
24 Commission may bring further legal proceedings against Respondent, including application to the  
25 superior court for an order of contempt.

26

1 IT IS FURTHER ORDERED. that no finding of fact or conclusion of law contained in this  
2 Order shall be deemed binding against any Respondent under this Docket Number who has not  
3 consented to the entry of this Order.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

6  
7 CHAIRMAN

COMMISSIONER

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10 COMMISSIONER

COMMISSIONER

COMMISSIONER

11 IN WITNESS WHEREOF, I, JODI JERICH, Executive  
12 Director of the Arizona Corporation Commission, have  
13 hereunto set my hand and caused the official seal of the  
14 Commission to be affixed at the Capitol, in the City of Phoenix,  
15 this \_\_\_\_\_ day of \_\_\_\_\_, 2016.

16 JODI JERICH  
17 EXECUTIVE DIRECTOR

18  
19 DISSENT

20  
21 DISSENT

22 This document is available in alternative formats by contacting Shaylin A. Bernal, ADA  
23 Coordinator, voice phone number 602-542-3931, e-mail [sabernal@azcc.gov](mailto:sabernal@azcc.gov).

24  
25 PSK

**CONSENT TO ENTRY OF ORDER**

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

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

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

15           4.       Respondent acknowledges that he has been represented by an attorney in this matter.  
16 he has reviewed this Order with his attorney, David Wood of the firm Baskin Richards PLC, and  
17 understands all terms it contains.

18           5.       Respondent admits only for purposes of this proceeding and any other proceeding in  
19 which the Commission is a party the Findings of Fact and Conclusions of Law contained in this  
20 Order. Respondent agrees that he shall not contest the validity of the Findings of Fact and  
21 Conclusions of Law contained in this Order in any present or future proceeding in which the  
22 Commission is a party.

23           6.       Respondent further agrees that he shall not deny or contest the Findings of Fact and  
24 Conclusions of Law contained in this Order in any present or future: (a) bankruptcy proceeding, or  
25 (b) non-criminal proceeding in which the Commission is a party (collectively, "proceeding(s)").  
26 Respondent further agrees that in any such proceedings, the Findings of Fact and Conclusions of

1 Law contained in this Order may be taken as true and correct and that this Order shall collaterally  
2 estop him from re-litigating with the Commission or any other Arizona state agency, in any forum,  
3 the accuracy of the Findings of Fact and Conclusions of Law contained in this Order. In the event  
4 Respondent pursues bankruptcy protection in the future, he further agrees that in such bankruptcy  
5 proceeding, pursuant to 11 U.S.C. § 523(a)(19), the following circumstances exist:

6 a) The obligations incurred as a result of this Order are a result of the conduct set forth in  
7 the Findings of Fact and Conclusions of Law in the Order and are for the violation of  
8 Arizona state securities laws, pursuant to 11 U.S.C. § 523(a)(19)(A)(i);

9 b) This Order constitutes a judgment, order, consent order, or decree entered in a state  
10 proceeding pursuant to 11 U.S.C. § 523(a)(19)(B)(i), a settlement agreement entered into  
11 by Respondent pursuant to 11 U.S.C. § 523(a)(19)(B)(ii), and a court order for damages,  
12 fine, penalty, citation, restitution payment, disgorgement payment, attorney fee, cost or  
13 other payment owed by Respondent pursuant to 11 U.S.C. § 523(a)(19)(B)(iii).

14 7. By consenting to the entry of this Order, Respondent agrees not to take any action or  
15 to make, or permit to be made, any public statement denying, directly or indirectly, any Finding of  
16 Fact or Conclusion of Law in this Order or creating the impression that this Order is without factual  
17 basis.

18 8. While this Order settles this administrative matter between Respondent and the  
19 Commission, he understands that this Order does not preclude the Commission from instituting other  
20 administrative or civil proceedings based on violations that are not addressed by this Order.

21 9. Respondent understands that this Order does not preclude the Commission from  
22 referring this matter to any governmental agency for administrative, civil, or criminal proceedings  
23 that may be related to the matters addressed by this Order.

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

1           11.     Respondent agrees that he will not apply to the state of Arizona for registration as a  
2 securities dealer or salesman or for licensure as an investment adviser or investment adviser  
3 representative until such time as all restitution and penalties under this Order are paid in full.

4           12.     Respondent agrees that he will not exercise any control over any entity that offers or  
5 sells securities or provides investment advisory services within or from Arizona until such time as  
6 all restitution and penalties under this Order are paid in full.

7           13.     Respondent agrees that he will continue to cooperate with the Securities Division  
8 including, but not limited to, providing complete and accurate testimony at any hearing in this matter  
9 and cooperating with the state of Arizona in any related investigation or any other matters arising  
10 from the activities described in this Order.

11          14.     Respondent consents to the entry of this Order and agrees to be fully bound by its  
12 terms and conditions.

13          15.     Respondent acknowledges and understands that if he fails to comply with the  
14 provisions of the order and this consent, the Commission may bring further legal proceedings against  
15 Respondent, including application to the superior court for an order of contempt.

16          16.     Respondent understands that default shall render him liable to the Commission for its  
17 costs of collection and interest at the maximum legal rate.

18          17.     Respondent agrees and understands that if he fails to make any payment as required  
19 in the Order, any outstanding balance shall be in default and shall be immediately due and payable  
20 without notice or demand. Respondent agrees and understands that acceptance of any partial or late  
21 payment by the Commission is not a waiver of default by the Commission.

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*Samuel A. Jones*  
(Samuel A. Jones)

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STATE OF )  
                  ) ss  
County of )

SUBSCRIBED AND SWORN TO BEFORE me this 15<sup>th</sup> day of April 2016.

*Sherry Lynn Gonzalez*  
NOTARY PUBLIC

My commission expires:  
September 30, 2019



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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

DOUG LITTLE - Chairman  
BOB STUMP  
BOB BURNS  
TOM FORESE  
ANDY TOBIN

In the matter of )  
Shadow Beverages and Snacks, LLC, an )  
Arizona limited liability company, )  
Lucio George Martinez and Lisa K. )  
Martinez, husband and wife, )  
Samuel A. Jones, a married man, )  
Respondents. )

DOCKET NO. S-20948A-15-0422

**NOTICE OF FILING OF PROPOSED OPEN MEETING AGENDA ITEM**

Pursuant to A.A.C. R14-4-303, you are hereby notified that the attached: proposed Order to Cease and Desist, Order for Restitution, and Order for Administrative Penalties and Consent to Same by Samuel A. Jones was filed with the Arizona Corporation Commission's Docket Control.

Dated: April 19, 2016

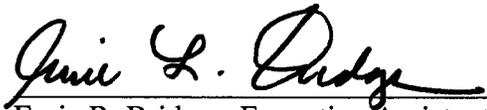
By:   
Paul Kitchin  
Enforcement Attorney

1 I hereby certify that I have served the foregoing documents on all parties of record in this proceeding  
2 by mailing a copy thereof, properly addressed with first class postage prepaid to:

3  
4 Alan S. Baskin  
5 David E. Wood  
6 BASKIN RICHARDS PLC  
7 2901 N. Central Avenue, Suite 1150  
8 Phoenix, AZ 85012  
9 Attorney for Respondent Samuel A. Jones

10 Lucio George Martinez  
11 Lisa K. Martinez  
12 1772 S Comanche Dr.  
13 Chandler Arizona 85286  
14 Respondents

15 Dated: 4/19/16

16 By:   
17 Emie R. Bridges, Executive Assistant