

ORIGINAL



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1 **BEFORE THE ARIZONA CORPORATION COMMISSION.**

2 COMMISSIONERS

3 DOUG LITTLE – Chairman
4 BOB STUMP
5 BOB BURNS
6 TOM FORESE
7 ANDY TOBIN

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL

2016 JUN 13 AM 10 44

8 IN THE MATTER OF
9 CONCORDIA FINANCING COMPANY, LTD, a/k/a
10 "CONCORDIA FINANCE,"
11 ER FINANCIAL & ADVISORY SERVICES, LLC,
12 LANCE MICHAEL BERSCH, and
13 DAVID JOHN WANZEK and LINDA WANZEK,
14 husband and wife.

DOCKET NO. S-20906A-14-0063

Arizona Corporation Commission

DOCKETED

JUN 13 2016

DOCKETED BY

NINETEENTH
PROCEDURAL ORDER
(Sets Status Conference)

Respondents.

14 **BY THE COMMISSION:**

15 On February 27, 2014, the Securities Division ("Division") of the Arizona Corporation
16 Commission ("Commission") filed a Notice of Opportunity for Hearing Regarding Proposed Order to
17 Cease and Desist, Order for Restitution, Order for Administrative Penalties, and Order for Other
18 Affirmative Action ("Notice") against Concordia Financing Company, Ltd, a/k/a Concordia Finance
19 ("Concordia"), ER Financial & Advisory Services, LLC ("ER"), Lance Michael Bersch, and David
20 John Wanzek and Linda Wanzek, husband and wife (collectively "Respondents"), in which the
21 Division alleged multiple violations of the Arizona Securities Act ("Act") in connection with the offer
22 and sale of securities in the form of investment contracts and promissory notes within or from Arizona.

23 The spouse of David John Wanzek, Linda Wanzek ("Respondent Spouse"), is joined in the
24 action pursuant to A.R.S. § 44-2031(C) solely for the purpose of determining the liability of the marital
25 community.

26 The Respondents were duly served with copies of the Notice.

1 On March 6, 2014, Respondents ER, Lance Michael Bersch and David John Wanzek filed a
2 Request for Hearing. On March 14, 2014, Respondent Linda Wanzek filed a Request for Hearing.

3 On March 17, 2014, by Procedural Order, a pre-hearing conference was scheduled for April 10,
4 2014.

5 On March 26, 2014, Respondent Concordia filed a Request for Hearing.

6 On March 27, 2014, by Procedural Order, the pre-hearing conference scheduled for April 10,
7 2014, was affirmed, with notice issued to Respondent Concordia.

8 On April 4, 2014, Respondents ER, Lance Michael Bersch, David John Wanzek, and Linda
9 Wanzek (collectively the "ER Respondents") filed a Motion to Dismiss and Answer.

10 On April 9, 2014, Respondent Concordia filed an Answer.

11 On April 10, 2014, at the pre-hearing conference, the parties appeared through counsel and
12 requested oral argument regarding the Motion to Dismiss. The parties further proposed a schedule for
13 filing motions prior to oral argument.

14 On April 15, 2014, by Procedural Order, oral argument and a status conference were scheduled
15 to commence on May 21, 2014. It was further ordered that Respondent Concordia shall file any Motion
16 to Dismiss by April 25, 2014, the Division shall file its Response to the Motions to Dismiss by May 9,
17 2014, and the Respondents shall file any Reply by May 16, 2014.

18 On April 25, 2014, Respondent Concordia filed its Joinder to Motion to Dismiss of Respondents
19 ER Financial & Advisory Services, LLC, Lance Michael Bersh, David John Wanzek and Linda
20 Wanzek.

21 On May 5, 2014, Respondents ER, Lance Michael Bersch, David John Wanzek, and Linda
22 Wanzek filed Acknowledgments of Possible Conflicts.

23 On May 9, 2014, the Division filed its Response to Motion to Dismiss by All Respondents.

24 On May 16, 2014, Respondents ER, Lance Michael Bersch, David John Wanzek, and Linda
25 Wanzek filed their Reply in Support of Motion to Dismiss.

26 On May 21, 2014, oral argument and a status conference were held. The parties appeared
27 through counsel and oral argument was presented. The Motion was taken under advisement and a
28 schedule was proposed for the parties to submit supplemental citations.

1 On May 22, 2014, the Division filed its Supplemental Citation of Authorities.

2 On May 29, 2014, Respondents Concordia, ER, Lance Michael Bersch, David John Wanzek,
3 and Linda Wanzek filed their Joint Supplemental Citation of Authorities.

4 On August 13, 2014, by Procedural Order, it was found that the Respondents had not established
5 dismissal to be appropriate and that it was necessary and proper to proceed with the Respondents'
6 request for a hearing. Accordingly, a prehearing conference was scheduled on September 2, 2014.

7 On September 2, 2014, a pre-hearing conference was held. The parties appeared through
8 counsel. The scheduling of a hearing was discussed. Counsel for the ER Respondents stated they
9 would be filing a special action regarding the motion to dismiss. Counsel for the ER Respondents
10 requested that part of the hearing be held in the Lake Havasu area to accommodate witnesses for the
11 ER Respondents. This request was denied. After much discussion, a commencement date for the
12 hearing was agreed to by the parties.

13 On September 2, 2014, by Procedural Order, a hearing was scheduled to commence on May
14 11, 2015.

15 On January 5, 2015, the Division filed a Motion to Quash Discovery Demands by the ER
16 Respondents. The Division asserted that on November 24, 2014, the Division was served by the ER
17 Respondents with a "First Request for Production of Documents," a "First Set of Non-Uniform
18 Interrogatories," a "First Set of Requests for Admissions," a "Notice of 30(b)(6) Deposition," and a
19 "Notice of Deposition of Gary R. Clapper." The Division contended that the discovery demands by
20 the ER Respondents should be quashed because: discovery in this proceeding is governed by the
21 Administrative Procedure Act and the Commission's Rules, not the Arizona Rules of Civil Procedure;
22 the ER Respondents have not demonstrated a reasonable need for the information they demand; the
23 discovery demands include information and documents that are privileged and/or made confidential by
24 statute; and the discovery demands are unreasonably overbroad, unduly burdensome and oppressive.

25 On January 26, 2015, by Procedural Order, the Division's Motion to Quash Discovery Demands
26 was granted. In light of the ER Respondents' efforts to obtain discovery, the parties' exchange of
27 witness lists and copies of exhibits was accelerated.

28 Later that day, the ER Respondents filed a Response to the Division's Motion to Quash. The

1 ER Respondents contended that: the Commission's Rules allow for broad discovery; discovery is not
2 barred by either the Administrative Procedure Act or statutory confidentiality; the ER Respondents
3 have a reasonable need for, and a constitutional right to, discovery; the requested documents are not
4 privileged or work product; and the discovery is not burdensome. The ER Respondents also requested
5 oral argument on the matter.

6 On January 27, 2015, by Procedural Order, oral argument was scheduled to be held on February
7 11, 2015. Later that day, the Division filed a Notice of Intent to File Reply in Support of Motion to
8 Quash Discovery Demands by the ER Respondents.

9 On February 3, 2015, the Division filed its Reply in Support of Motion to Quash Discovery
10 Demands by the ER Respondents. The Division argued that: the ER Respondents have not properly
11 sought discovery as provided under the Administrative Procedure Act and the Commission's rules; the
12 Arizona Rules of Civil Procedure do not apply to discovery in this proceeding; prior procedural orders
13 and Commission decisions cited by the ER Respondents can be distinguished or otherwise fail to
14 support ordering the discovery sought; the ER Respondents have not demonstrated a reasonable need
15 for the discovery sought; many of the documents sought are protected work product; and the discovery
16 sought is confidential under A.R.S. § 44-2042(A).

17 On February 5, 2015, the Division filed a Notice of Errata Regarding its Reply in Support of
18 Motion to Quash Discovery Demands by the ER Respondents.

19 On February 10, 2015, ER Respondents filed a Motion to Compel seeking discovery from
20 Respondent Concordia and requesting oral argument. The ER Respondents contend that the
21 Commission's rules allow broad discovery; their requests for production of documents are specific and
22 not overbroad or burdensome; Concordia is the custodian of its own records; and a subpoena is not
23 required as Concordia is a party to this proceeding. The ER Respondents further attached an affidavit
24 from Respondent David John Wanzek responding to Concordia's communicated demand for a sworn
25 statement as to the ER Respondents' claims that they returned files to Concordia and that Mr. Bersch
26 and Mr. Wanzek were privy to attorney-client communications between Concordia and its counsel.

27 On that same day, counsel for ER Respondents filed a Notice of Change of Law Firm and
28 Notice of Association with Counsel.

1 On February 11, 2015, oral argument was held. The parties appeared through counsel. The
2 Division and the ER Respondents presented oral argument in favor of their respective positions on the
3 ER Respondents' requests for discovery. In light of the approaching commencement date of the
4 hearing, the presiding Administrative Law Judge ruled from the bench, finding that while the
5 Administrative Procedure Act applies, fairness dictates that in this case the Division more promptly
6 provide the Respondents with certain documents in its possession. Though the prior order quashing
7 the ER Respondents' discovery requests was affirmed, the Division was directed to disclose to the
8 Respondents, by February 26, 2015, the contracts it intends to submit as evidence of the 446 alleged
9 investments. The Division contended that it may not have contracts for all 446 of the alleged
10 investments and that the time required for redaction of this many documents might make it difficult to
11 meet the disclosure deadline. The Administrative Law Judge directed the Division to prioritize those
12 contracts involving the ER Respondents and permitted the Division to disclose by March 12, 2015, any
13 contracts which, after a good faith effort, are not ready by February 26, 2015. Additionally, the
14 Division was directed to disclose the transcript from the examination under oath of Respondent Lance
15 Michael Bersch, and the exhibits used therein, by February 26, 2015. The documents ordered to be
16 disclosed by February 26, 2015, are all documents Division counsel stated he planned to use at hearing
17 and, therefore, would have been subject to disclosure by the March 12, 2015 scheduled exchange of
18 exhibits and witness lists.

19 On February 13, 2015, by Procedural Order, the Division was directed to disclose documents
20 to the Respondents as set forth at by the Administrative Law Judge at oral argument on February 11,
21 2015.

22 On February 17, 2015, the ER Respondents filed an Application for Administrative Subpoena
23 requesting a subpoena for the deposition of anticipated Division witness Gary R. Clapper. The ER
24 Respondents also filed an Application for Administrative Subpoena requesting a subpoena for the
25 deposition of an Expert Accounting Witness to be designated by the Securities Division.

26 On March 6, 2015, the ER Respondents filed a Notice of Filing Affidavits of Service.

27 On March 9, 2015, by Procedural Order, a telephonic status conference was scheduled to
28 convene on March 16, 2015. The purpose of the status conference was to address whether the ER

1 Respondents continued to seek the production of further documents from Respondent Concordia in
2 light of the upcoming deadline for disclosure of exhibits and witness lists.

3 On March 11, 2015, Respondent Concordia filed its Motion to Extend Time to Exchange List
4 of Witnesses and Exhibits. Respondent Concordia requested an extension of the deadline to exchange
5 its List of Witnesses and Exhibits to March 20, 2015, based upon counsel for Concordia's upcoming
6 depositions and injunction hearings in matters unrelated to this case. In the motion, counsel for
7 Concordia noted that counsel for the ER Respondents had been contacted and would not agree to an
8 extension.

9 On March 12, 2015, the ER Respondents filed a Response in Opposition to Motion to Extend
10 Time to Exchange List of Witnesses and Exhibits. The ER Respondents opposed the motion for the
11 stated reasons that the hearing is imminent and the information is necessary for their defense.

12 Later on March 12, 2015, Respondent Concordia filed its List of Witnesses and Exhibits. The
13 ER Respondents also filed a Notice of Service of List of Witnesses and Exhibits.

14 On March 16, 2015, a telephonic status conference was held. The parties appeared through
15 counsel. The ER Respondents clarified which documents they continued to seek from Concordia.
16 Counsel for Concordia indicated the Respondents may be able to resolve the issue among themselves
17 within a couple weeks as Concordia needed time to prepare financial statements and ready board
18 minutes for disclosure. The Respondents agreed to work toward resolving the discovery issues raised
19 in the ER Respondents' Motion to Compel pending another status conference, and they further agreed
20 to include the Division in the discovery process.

21 It was further determined at the status conference that Concordia's Motion to Extend Time to
22 Exchange List of Witnesses and Exhibits had been rendered moot by Concordia's filing of a List of
23 Witnesses and Exhibits, though Concordia may supplement its exhibits and witness lists based upon
24 ongoing discovery. Also discussed was the Division's intent to amend the Notice of Opportunity to
25 include Linda Wanzek as a participant, as opposed to being joined solely for determining the liability
26 of the marital community. The Division agreed to file a motion to amend the Notice of Opportunity.
27 The Division also stated its intent to file a motion to quash the scheduled depositions of Gary Clapper
28 and an expert accounting witness. A schedule was determined for motion practice and oral argument

1 on the motion to quash.

2 On March 18, 2015, by Procedural Order, oral argument was scheduled for April 2, 2015, to
3 address the issue of the Division's motion to quash. A status conference regarding Concordia's
4 production of discovery was set for the same time.

5 On March 20, 2015, the Division filed a Motion to Quash Subpoenas, or in the Alternative,
6 Motion for a Procedural Order Limiting the Scope of Subpoenas. The Division contended that the
7 subpoenas should be quashed as they did not comply with the Administrative Procedure Act and the
8 Respondents now have the documents and information they claim they needed. In the alternative, the
9 Division argued that the scope of the depositions should be limited to only that information the ER
10 Respondents specifically identified in their Applications for Subpoenas.

11 On March 27, 2015, the ER Respondents filed a Response to the Securities Division's Motion
12 to Quash Subpoenas. The ER Respondents contended that the subpoenas complied with the
13 Commission's rules and the Administrative Procedure Act, that the ER Respondents have a reasonable
14 need for the depositions, and that the scope of the depositions should not be limited.

15 On that same day, the ER Respondents also filed a copy of a letter sent to counsel for the
16 Division. The letter was identified as an objection to the Division's investigative subpoenas for
17 Respondents David and Linda Wanzek. The ER Respondents noted that the Division has contended in
18 the past that an Administrative Law Judge lacks the power to quash an investigative subpoena.
19 However, the ER Respondents stated they filed a copy of the letter as a record of their objections.

20 On April 1, 2015, the Division filed its Reply in Support of Motion to Quash Subpoenas, or in
21 the Alternative, Motion for a Procedural Order Limiting the Scope of Subpoenas. The Division argued
22 that the subpoenas should be quashed because there is no finding in the record that the ER Respondents
23 have demonstrated a reasonable need for the deposition testimony, the applications for subpoena were
24 deficient and misleading as the ER Respondents have now identified additional matters for discovery
25 beyond those stated in the applications, and the ER Respondents have received all the documents and
26 information they claimed to need. In the alternative, the Division argued that the scope of the
27 subpoenas should be limited based upon: the matters for which the ER Respondents have established
28 a reasonable need pursuant to the Administrative Procedure Act; the Division's deliberative process

1 and attorney-client privileges; and the Securities Act's confidentiality statute, A.R.S. § 44-2042(A).

2 On April 2, 2015, a status conference and oral argument were held. The parties appeared
3 through counsel. Counsel for the Respondents stated that Respondent Concordia is in the process of
4 preparing requested documents for disclosure to the ER Respondents. Respondent Concordia asserted
5 that some documents are likely in the possession of the Division, having been obtained from the State
6 of California following proceedings conducted there, and could be more easily obtained from the
7 Division. The Division asserted that the Securities Act's confidentiality statute applied, but noted that
8 it would make available supporting documentation used by the Division's accountant in creating his
9 Financial Data Summary.

10 The Division and the ER Respondents presented oral argument in favor of their respective
11 positions on the Division's Motion to Quash Subpoenas, or in the Alternative, Motion for a Procedural
12 Order Limiting the Scope of Subpoenas. Having considered the written and oral arguments presented
13 by the parties, as well as the statutes, rules and other authority cited therein, the presiding
14 Administrative Law Judge ruled from the bench and quashed the two subpoenas pursuant to A.A.C.
15 R14-3-109(O). The Administrative Law Judge found that the Administrative Procedure Act applies
16 and therefore, the ER Respondents must establish reasonable need for the information sought in the
17 depositions. In finding that the ER Respondents did not have reasonable need to proceed with the
18 depositions, the Administrative Law Judge noted: the numerous documents disclosed by the Division
19 as exhibits subsequent to the issuance of the subpoenas; the forthcoming disclosure by the Division of
20 the documents used by the accountant; the effect of these disclosed documents upon any current
21 reasonable need for the depositions regarding those six areas specifically identified in the ER
22 Respondents' Application for Subpoenas; and the schedule of the hearing, which will allow the ER
23 Respondents additional time before presenting their case, thereby overcoming any surprise that may
24 arise during the Division's presentation of its case in chief.

25 On April 3, 2015, by Procedural Order, the two subpoenas commanding attendance of the
26 Division witnesses for depositions were quashed, as decided at the April 2, 2015 status conference.
27 The Division was ordered to disclose by April 15, 2015, the supporting documentation relied upon by
28 the Division's accountant in creating his Financial Data Summary. The Respondents were further

1 ordered to continue to work toward resolving outstanding discovery issues arising from the ER
2 Respondents' Motion to Compel.

3 On April 17, 2015, the ER Respondents filed a Motion to Continue Hearing. The reason for
4 seeking a continuance was due to health conditions of Respondent Lance Michael Bersch. The ER
5 Respondents requested that a status conference be set in about six months with the ER Respondents to
6 file a status report at least 21 days before the status conference.

7 On April 22, 2015, by Procedural Order, a status conference was scheduled for April 28, 2015,
8 to address the ER Respondents' Motion to Continue Hearing.

9 On April 24, 2015, Respondent Concordia filed its Response to Motion to Continue.
10 Respondent Concordia had no objection to the continuance requested by the ER Respondents.

11 On April 24, 2015, the Division filed a Motion for Leave to File Amended Notice of
12 Opportunity for Hearing Regarding Proposed Order to Cease and Desist, Order for Restitution, Order
13 for Administrative Penalties, and Order for Other Affirmative Action. The Division sought leave to
14 amend its Notice of Opportunity for Hearing to provide greater detailed factual allegations and to
15 expound upon the fraud allegations from the original Notice.

16 Also on April 24, 2015, the Division filed its Response to the Motion to Continue Hearing. The
17 Division contended that the ER Respondents' Motion to Continue should be denied as the ER
18 Respondents have failed to provide sufficient information to justify a postponement due to illness.
19 However, the Division proposed a three month continuance of the hearing if leave is granted to amend
20 the Notice of Opportunity.

21 On April 28, 2015, a telephonic status conference was held. The parties appeared through
22 counsel. The ER Respondents' Motion to Continue and the Division's Motion for Leave to File
23 Amended Notice were both discussed. It was also noted that a hearing was scheduled to convene in
24 Superior Court on April 29, 2015, regarding a Motion to Stay Administrative Hearing filed by
25 Respondents Bersch, Wanzek and Mrs. Wanzek, pursuant to their Notice of Appeal of the final
26 judgment in the special action. A schedule was set for the filing of motions which would be addressed
27 at a future status conference. The parties also agreed to vacate the scheduled hearing commencing on
28 May 11, 2015.

1 On April 28, 2015, by Procedural Order, a status conference was scheduled to be held on May
2 7, 2015, to address the pending motions and schedule a hearing date. The Procedural Order further set
3 deadlines for the filing of responses and replies regarding the pending motions. The Procedural Order
4 also vacated the hearing scheduled to commence on May 11, 2015.

5 On April 29, 2015, the Division filed a Status Report Regarding the Superior Court Hearing on
6 Motion to Stay Administrative Case Pending Appeal. The Division reported that the Superior Court
7 hearing on the Motion to Stay Administrative Hearing did not occur as scheduled on April 29, 2015.
8 The Division stated that the hearing was rescheduled for May 4, 2015.

9 On May 4, 2015, the ER Respondents filed a Reply in Support of Motion to Continue Hearing.
10 The ER Respondents provided additional information regarding the medical condition of Respondent
11 Bersch. Included as an exhibit to the reply was a letter from Mr. Bersch's doctor, who projected a
12 recovery date for Mr. Bersch of July 15, 2015.

13 On that same date, the ER Respondents also filed a Response to Securities Division's Motion
14 for Leave to File Amended Notice of Opportunity. The ER Respondents stated no objection to granting
15 the Division leave to amend the Notice. The ER Respondents noted they would need additional time
16 to address the new allegations. The ER Respondents further stated that they would reserve: the right
17 to challenge the sufficiency of the new allegations by motion to dismiss; the right to include affirmative
18 defenses, cross-claims, counterclaims or third party claims with their answer to the amended notice;
19 and the right to review discovery related to the new allegations.

20 Also on May 4, 2015, the Division filed a Status Report Regarding the Superior Court Hearing
21 on Motion to Stay Administrative Case Pending Appeal. The Division noted that the Court ruled from
22 the bench and denied the Motion to Stay Administrative Hearing Pending Appeal. The Division stated,
23 however, that the Court issued a temporary 30-day stay that would apply only to an evidentiary hearing
24 before the Commission and not to the procedural conference set for May 7, 2015.

25 On May 5, 2015, Respondent Concordia filed its Response to Motion for Leave to File
26 Amended Notice of Opportunity. Respondent Concordia stated that it had no objection to the
27 Division's motion.

28 On May 6, 2015, the Division filed a Motion to Take Official Notice of the Superior Court's

1 Minute Entry Denying Motion to Stay Administrative Case Pending Appeal. The Division attached as
2 an exhibit a copy of the Superior Court's May 4, 2015 minute entry in Maricopa County Superior Court
3 Case No. LC2014-000415-001. In denying the request for stay, the Court found that the Plaintiffs had
4 failed to demonstrate: (1) a likelihood of success on the merits, (2) that they would be irreparably
5 harmed if a stay is not granted, (3) that a stay would not injure the opposing party, and (4) that a stay
6 furthers the public interest. The Court did order a temporary stay of thirty days, or until June 3, 2015,
7 to apply to the Court of Appeals for a stay of the administrative hearing.

8 On May 7, 2015, a telephonic status conference was held as scheduled. The parties appeared
9 through counsel. Without objection by the Respondents, the Administrative Law Judge took official
10 notice of the May 4, 2015 minute entry in Maricopa County Superior Court Case No. LC2014-000415-
11 001. The parties agreed that the temporary stay ordered by the Court did not preclude present action
12 on the pending motions and the scheduling of a hearing date after June 3, 2015. Without objection, the
13 Division's Motion for Leave to File Amended Notice of Opportunity was granted. Discussion was
14 held regarding the scheduling of the hearing and a new hearing date was agreed upon. Based upon the
15 new hearing date and the projected recovery time for Mr. Bersch, the ER Respondents acknowledged
16 that their April 17, 2015 Motion to Continue Hearing was now moot. The ER Respondents also
17 acknowledged that they no longer had any discovery issues with regard to Respondent Concordia, as
18 raised originally in the ER Respondents Motion to Compel filed on February 10, 2015. The parties
19 acknowledged that, in light of the soon to be filed amended Notice, the ER Respondents would reserve
20 their prior arguments as set forth in their April 4, 2014 Motion to Dismiss and Answer.

21 On May 7, 2015, by Procedural Order, a hearing was scheduled to commence on August 5,
22 2015.

23 On May 7, 2015, the Division filed an Amended Notice of Opportunity for Hearing Regarding
24 Proposed Order to Cease, and Desist, Order for Restitution, Order for Administrative Penalties and
25 Order for Other Affirmative Action ("Amended Notice").

26 On May 19, 2015, the ER Respondents filed Requests for Hearing. Each of the four ER
27 Respondents filed a separate Request for Hearing.

28 On May 21, 2015, Concordia filed a Request for Hearing.

1 On June 8, 2015, the ER Respondents filed a Motion to Dismiss and Answer to Amended Notice
2 of Opportunity (“Motion and Amended Answer”). The ER Respondents sought dismissal of the
3 Division’s fraud allegation that the ER Respondents failed to disclose to offerees and investors they
4 were engaging in the conduct of an unlicensed escrow business by serving as a Custodian. The ER
5 Respondents argued dismissal was appropriate because the Commission has no jurisdiction to enforce
6 escrow laws and the alleged violation does not constitute securities fraud.

7 Also on June 8, 2015, Respondent Concordia filed its Answer to Amended Notice of
8 Opportunity for Hearing Regarding Proposed Order to Cease and Desist, Order for Restitution, Order
9 for Administrative Penalties, and Order for Other Affirmative Action.

10 On June 16, 2015, the ER Respondents filed a Status Report regarding their Motion to Stay
11 filed with the Arizona Court of Appeals.

12 On June 22, 2015, the Division filed its Response to Motion to Dismiss by the ER Respondents
13 (“Response”). The Division argued that jurisdiction was proper because they are seeking to enforce
14 anti-fraud provisions of the Securities Act. The Division cited *S.E.C. v. Levine*, 671 F. Supp. 2d 14,
15 28-29 (D.D.C. 2009), as precedent for finding securities fraud in an investment promoter’s non-
16 disclosure of acting as an unlicensed escrow agent. The Division further asserted that the failure of the
17 ER Respondents to disclose their acting as an unlicensed escrow business constituted a material
18 omission.

19 On June 30, 2015, the ER Respondents filed their Reply in Support of Motion to Dismiss
20 (“Reply”). The ER Respondents argued that *Levine* is non-controlling authority and factually
21 distinguishable. The ER Respondents further contended that materiality is a legal conclusion and that
22 the Division has failed to set forth factual allegations to support its theory.

23 On July 2, 2015, the Division filed a Motion for Order Requiring Respondent Concordia to file
24 an Amended Answer that Complies with R14-4-305. The Division contended that Concordia’s June
25 8, 2015 Answer fails to specifically admit or deny several of the allegations made in the Amended
26 Notice.

27 On July 6, 2015, Respondent Concordia filed a Stipulated Motion to Extend Time to Exchange
28 Supplemental List of Witnesses and Exhibits (“Stipulated Motion”). The Stipulated Motion stated that

1 counsel for the Division and counsel for the Respondents have conferred and agreed to extend the time
2 to exchange their Supplemental List of Witnesses and Exhibits to July 15, 2015.

3 On July 7, 2015, by Procedural Order, the ER Respondents' Motion to Dismiss was denied
4 because the Commission has jurisdiction over an allegation of fraud in connection with the offer or
5 sale of securities and the ER Respondents failed to establish that the Division would be entitled to no
6 relief under any state of facts susceptible of proof as to that portion of the Amended Notice for which
7 dismissal was sought.

8 On July 15, 2015, the ER Respondents filed a Notice of Service of Updated List of Witnesses
9 and Exhibits.

10 On that same date, Respondent Concordia filed a Motion for Settlement Conference.
11 Respondent Concordia asserts its belief that the allegations against it can be resolved short of
12 proceeding with a hearing.

13 Also on July 15, 2015, the Division filed a Motion for Leave to Present Telephonic Testimony.
14 The Division contends that good cause exists to allow the use of telephonic testimony at the hearing as
15 eleven of its witnesses are located in Tucson, Lake Havasu City, or outside Arizona. The Division
16 contends that telephonic testimony is permitted under the Commission's Rules of Practice and
17 Procedure and its use would not abridge the Respondents' due process rights.

18 On July 16, 2015, a telephonic procedural conference was held as scheduled. The parties
19 appeared through counsel. The ER Respondents provided a status report on their pending Motion to
20 Stay filed with the Arizona Court of Appeals. The parties discussed the merits of holding a settlement
21 conference and agreed upon a date. The parties discussed the Division's Motion for Leave to Present
22 Telephonic Testimony and a schedule was set for responses to the motion. Respondent Concordia
23 stated its intent to file an amended answer.

24 Also on July 16, 2015, by Procedural Order, Respondent Concordia's Motion for Settlement
25 Conference was granted. The Division's Motion for an Order Requiring Respondent Concordia to file
26 an Amended Answer was also granted. A settlement conference was set for July 23, 2015. Filing dates
27 were scheduled for Concordia's Amended Answer and for motions regarding requests for telephonic
28 testimony at the hearing.

1 On July 17, 2015, Respondent Concordia filed an Amended Answer to Amended Notice of
2 Opportunity for Hearing Regarding Proposed Order to Cease and Desist, Order for Restitution, Order
3 for Administrative Penalties, and Order for Other Affirmative Action.

4 On July 20, 2015, the ER Respondents filed a Motion to Allow Telephonic Testimony of
5 Witnesses. The ER Respondents requested that 67 of their listed witnesses be permitted to testify
6 telephonically as these witnesses live outside of the Phoenix area.

7 Also on July 20, 2015, the ER Respondents filed a Response to the Division's Motion for Leave
8 to Present Telephonic Testimony. The ER Respondents stated no objection to the telephonic testimony
9 of the Division's investor witnesses and no objection to the Division's witness from the California
10 Department of Business Oversight, who will be testifying to only the authentication of documents. The
11 ER Respondents specifically objected to the telephonic testimony of A. Craig Mason, Jr., a non-
12 investor expected to be subject to "substantial" cross-examination.

13 On July 21, 2015, Respondent Concordia filed its Response to the Division's Motion for Leave
14 to Present Telephonic Testimony, stating no objection to the motion.

15 Also on that day, Respondent Concordia Filed an Updated List of Witnesses and Exhibits.

16 On July 23, 2015, a settlement conference was held.

17 On July 24, 2015, the Division filed its Response/Non-Opposition to the ER Respondents'
18 Motion to Allow Telephonic Testimony of Witnesses, and Reply in Support of Motion for Leave to
19 Present Telephonic Testimony. The Division contended that: good cause exists to allow the out-of-
20 state Mr. Mason to testify telephonically, the Commission cannot subpoena him under A.A.C. R14-3-
21 109(O), it would be cost prohibitive to bring him in for an anticipated direct testimony of less than
22 fifteen minutes, and permitting him to testify telephonically comports with procedural due process.

23 On July 27, 2015, by Procedural Order, the Division's Motion for Leave to Present Telephonic
24 Testimony and the ER Respondents' Motion to Allow Telephonic Testimony of Witnesses were
25 granted. A telephonic procedural conference was scheduled to commence on July 29, 2015, at 10:00
26 a.m.

27 Also on that day, the ER Respondents filed a Motion in Limine Number One: Objection to
28 Proposed Exhibits S-176(a) and S-176(b), a Motion in Limine Number Two: Objection to Proposed

1 Exhibit S-177, a Request for Public Broadcast of the Hearing, and a Motion for Clarification.

2 On July 28, 2015, the Division filed a Response to Motion for Settlement Conference and
3 Objection to Counsel's Unannounced Departure from Settlement Conference.

4 Also on July 28, 2015, the ER Respondents filed a Notice of Court of Appeals Order Staying
5 Proceedings in this Docket. The ER Respondents included a copy of the Order Granting Stay of
6 Administrative Hearing Pending Appeal, filed July 28, 2015, in Court of Appeals Division One No. 1
7 CA-CV 15-0340 (Maricopa County Superior Court No. LC2014-000415-001).

8 On July 29, 2015, by Procedural Order, the stay of administrative proceedings ordered by the
9 Arizona Court of Appeals was acknowledged. The telephonic procedural conference, scheduled to
10 commence on July 29, 2015, and the hearing, scheduled to commence on August 5, 2015, were both
11 vacated. The parties were ordered to file a joint written report regarding the status of the proceedings
12 in Court of Appeals Division One No. 1 CA-CV 15-0340 on November 2, 2015, and every ninety days
13 thereafter. The parties were further ordered to file a joint status report within five days upon a change
14 in status of the stay or a disposition of the appeal having been made by the Court of Appeals.

15 On November 2, 2015, the parties filed a Joint Status Report regarding the Status of the
16 Proceedings in the Arizona Court of Appeals. The parties asserted that the appeal filed by Mr. Bersch
17 and Mr. and Mrs. Wanzek of the entry of final judgment entered in Maricopa County Superior Court
18 No. LC2014-000415-001 had been fully briefed and that the parties had requested oral argument before
19 the Arizona Court of Appeals.

20 On February 1, 2016, the parties filed a Second Joint Status Report regarding the Status of the
21 Proceedings in the Arizona Court of Appeals. The parties asserted that the Arizona Court of Appeals
22 had granted the requests for oral argument but no date had been scheduled. The parties also asserted
23 further briefs were submitted to the Arizona Court of Appeals after the Arizona Attorney General was
24 permitted to file a brief as Amicus Curiae.

25 On April 29, 2016, the parties filed a Third Joint Status Report regarding the Status of the
26 Proceedings in the Arizona Court of Appeals. The parties stated that the matter had been fully briefed
27 and oral argument set for May 10, 2016.

28 On June 3, 2016, the Division filed a Notice of Lodging of Court of Appeals Decision. The

1 Division asserted that the Arizona Court of Appeals decision affirmed the judgment of the Superior
2 Court and vacated the Court of Appeals' stay of the proceedings.

3 Also on June 3, 2016, the Division filed a Motion for Status Conference to Schedule Hearing.
4 The Division contends that since the Arizona Court of Appeals has vacated its stay of these
5 proceedings, the proceedings should promptly resume.

6 Accordingly, a status conference should be scheduled.

7 IT IS THEREFORE ORDERED that a **status conference** shall be held on **June 29, 2016, at**
8 **10:00 a.m.**, at the Commission's offices, 1200 West Washington Street, Hearing Room No. 1, Phoenix,
9 Arizona.

10 IT IS FURTHER ORDERED that the Ex Parte Rule (A.A.C. R14-3-113-Unauthorized
11 Communications) is in effect and shall remain in effect until the Commission's Decision in this matter
12 is final and non-appealable.

13 IT IS FURTHER ORDERED that all parties must comply with Rules 31 and 39 of the Rules of
14 the Arizona Supreme Court and A.R.S. § 40-243 with respect to the practice of law and admission *pro*
15 *hac vice*.

16 IT IS FURTHER ORDERED that withdrawal or representation must be made in compliance
17 with A.A.C. R14-3-104(E) and Rule 1.16 of the Rules of Professional Conduct (under Rule 42 of the
18 Rules of the Arizona Supreme Court). Representation before the Commission includes appearances at
19 all hearings and procedural conferences, as well as all Open Meetings for which the matter is scheduled
20 for discussion, unless counsel has previously been granted permission to withdraw by the
21 Administrative Law Judge or the Commission.

22 IT IS FURTHER ORDERED that the Presiding Administrative Law Judge may rescind,
23 alter, amend, or waive any portion of this Procedural Order either by subsequent Procedural Order or
24 by ruling at hearing.

25 DATED this 13th day of June, 2016.

26
27
28

MARK PRENEY
ADMINISTRATIVE LAW JUDGE

1 Copies of the foregoing mailed/delivered
this 13th day of June, 2016, to:

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