

1 STATE OF WASHINGTON  
2 DEPARTMENT OF FINANCIAL INSTITUTIONS  
3 SECURITIES DIVISION

4 IN THE MATTER OF DETERMINING ) Order No.: S-03-111-03-TO01  
5 Whether there has been a violation of the )  
6 Securities Act of Washington by: ) SUMMARY ORDER TO CEASE AND  
7 DRDATA INC. and WILLIAM ARTHUR ) DESIST AND NOTICE OF INTENT TO  
8 HITSMAN, JR. ) IMPOSE A FINE  
9 Respondents )  
10 \_\_\_\_\_ )

11 THE STATE OF WASHINGTON TO: DRDATA INC.  
12 WILLIAM ARTHUR HITSMAN, JR.

13 **STATEMENT OF CHARGES**

14 Please take notice that the Securities Administrator of the State of Washington has reason  
15 to believe that Respondents, DRDATA Inc. and William Arthur Hitsman, Jr., have each violated  
16 the Securities Act of Washington and that their violations justify the entry of an order of the  
17 Securities Administrator under RCW 21.20.390 against each to cease and desist from such  
18 violations. The Securities Administrator finds that delay in ordering the Respondents to cease  
19 and desist from such violations would be hazardous to the investors and to the public and that a  
20 Summary Order to Cease and Desist should be entered immediately. The Securities  
21 Administrator finds as follows:

22 **TENTATIVE FINDINGS OF FACT**

23 **I. RESPONDENTS**

24 1. DRDATA Inc. is purportedly a Delaware corporation that was started in 1999 and had  
25 its principal place of business in San Diego, California. DRDATA Inc. was purportedly in the

1 business of developing and marketing software for analyzing organizational costs. William  
2 Lauer was purportedly the president of DRDATA Inc.

3 2. William Arthur Hitsman, Jr. (“Hitsman”) held himself out as the senior vice president  
4 of DRDATA Inc. During 2001, Hitsman was working part-time for DRDATA Inc. During  
5 2003, Hitsman has been working full-time with William Lauer to market software for analyzing  
6 organizational costs. At all times material to this order, Hitsman has been a Washington  
7 resident.  
8

## 9 II. OFFERING OF INVESTMENTS

10 During at least 2001, Hitsman has offered and sold investments totaling more than  
11 \$40,000 in DRDATA Inc. to at least seven investors, several of whom were Washington  
12 residents. In most cases, the investments were supposed to be repaid within 24 months.

13 Hitsman represented to at least one investor that he was offering and selling stock from  
14 DRDATA Inc. Later, Hitsman told the investor that Hitsman was selling shares of his own stock  
15 in DRDATA Inc.

16 When offering and selling the DRDATA Inc. investments, Hitsman told investors that  
17 they would receive shares of stock in DRDATA Inc., but at the same time, Hitsman told  
18 investors that their investments would be repaid within a specific time period, generally within  
19 24 months of the date of their investment.  
20

## 21 III. MISREPRESENTATIONS AND OMISSIONS

22 When offering and selling the DRDATA Inc. investments, Hitsman misrepresented to  
23 investors that there would be no loss on the amount of their investment because he would  
24 personally guarantee the repayment of their principal amount invested. Hitsman failed to give  
25 the investors financial statements for Hitsman or provide any evidence of his ability to guarantee

1 the amount of their investments. At this time, several of the investments are past due and have  
2 not been repaid.

3 When offering and selling the DRDATA Inc. investments, Hitsman and DRDATA Inc.  
4 each failed to disclose the risks of the investments, including the developmental nature of the  
5 software, the ownership of the software by a related company, the lack of an established market  
6 for the software and the competition within the software industry. Hitsman and DRDATA Inc.  
7 each failed to disclose the intended or actual use of the investor funds. Hitsman and DRDATA  
8 Inc. each failed to disclose the cost of developing and marketing the software. Hitsman and  
9 DRDATA Inc. each failed to give the investors any financial statements for DRDATA Inc.  
10

11 During 2001, Hitsman distributed misleading “investor statements” showing reported  
12 gains for the DRDATA Inc. investments, which in some cases were more than twice the amount  
13 that was initially invested. However, Hitsman failed to disclose that the reported gains were only  
14 projected gains and were not realized gains.

#### 15 IV. UNREGISTERED SECURITIES OFFERING

16 The offering of stock or investments by DRDATA Inc. was never registered under RCW  
17 21.20 with the Washington State Securities Division.

#### 18 V. THREAT TO THE INVESTING PUBLIC

19 The Securities Administrator finds that the continued offering of investments in the  
20 manner described above presents a threat to the investing public.  
21

22 Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:  
23  
24  
25

1 **CONCLUSIONS OF LAW**

2 **I.**

3 The offer or sale of the investments described above constitutes the offer or sale of a  
4 security as defined in RCW 21.20.005(10) and (12), whether in the form of stock, investment  
5 contracts or evidences of indebtedness.  
6

7 **II.**

8 The offer or sale of said securities was made in violation of RCW 21.20.140 because  
9 there was no registration for the offering of said securities under the Securities Act of  
10 Washington.

11 **III.**

12 The offer or sale of said securities was made in violation of RCW 21.20.010 because the  
13 Respondents each made untrue statements of material fact or omitted to state material facts  
14 necessary in order to make the statements made not misleading.

15 **IV.**

16 The Securities Administrator finds and concludes that an emergency exists, that  
17 continued violations of RCW 21.20.010 and RCW 21.20.140 constitutes a threat to the investing  
18 public, and that summary orders to cease and desist from those violations are in the public  
19 interest and necessary for the protection of the investing public.  
20

21 **SUMMARY ORDER**

22 Based upon the foregoing, NOW, THEREFORE, IT IS HEREBY SUMMARILY  
23 ORDERED that DRDATA Inc., William Arthur Hitsman, Jr. and their agents and employees  
24 shall each cease and desist from offering or selling securities in any manner in violation of RCW  
25 21.20.140, the securities registration section of the Securities Act of Washington.

1 IT IS FURTHER SUMMARILY ORDERED that DRDATA Inc., William Arthur  
2 Hitsman, Jr. and their agents and employees shall each cease and desist from offering or selling  
3 securities in any manner in violation of RCW 21.20.010, the anti-fraud section of the Securities  
4 Act of Washington.

5 **NOTICE OF INTENT TO IMPOSE A FINE**

6 As described in the above Tentative Findings of Fact and Conclusions of Law, based  
7 upon William Arthur Hitsman Jr.'s offer and sale of unregistered securities and based upon the  
8 material misrepresentations or omissions that he made in connection with the offer and sale of  
9 said securities, the Securities Administrator finds that there have been knowing or reckless  
10 violations of the Securities Act by William Arthur Hitsman, Jr. that justify the imposition of a  
11 fine pursuant to RCW 21.20.395. Therefore, the Securities Administrator intends to order  
12 William Arthur Hitsman, Jr. to pay a fine of \$5,000.

13 **AUTHORITY AND PROCEDURE**

14 This Order is entered pursuant to the provisions of RCW 21.20.390 and RCW 21.20.395  
15 and is subject to the provisions of the Administrative Procedures Act, ch. 34.05 RCW. The  
16 respondents, DRDATA Inc. and William Arthur Hitsman, Jr., may each make a written request  
17 for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND  
18 OPPORTUNITY FOR HEARING accompanying this order.  
19

20 If DRDATA, Inc. fails to make a timely hearing request, the Securities Administrator  
21 intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and make  
22 the summary order to cease and desist permanent as to DRDATA, Inc.

23 If William Arthur Hitsman, Jr. fails to make a timely hearing request, the Securities  
24 Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as

1 final and make the summary order to cease and desist permanent as to William Arthur Hitsman,  
2 Jr. The Securities Administrator will also impose upon William Arthur Hitsman, Jr. the \$5,000  
3 fine sought in this order.

4 WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

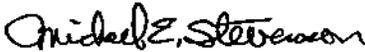
5 Dated this 30<sup>th</sup> day of October, 2003

7 

8 Securities Administrator  
9 Deborah R. Bortner

10 Approved by:

Presented by:

13 

14  
15 Michael E. Stevenson  
16 Chief of Enforcement

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17 Janet So  
18 Financial Legal Examiner