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UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF UTAH

SECURITIES AND EXCHANGE COMMISSION,

PLAINTIFF,

v.

Art Intellect, Inc., a Utah corporation, d/b/a Mason Hill and
Virtual MG, Patrick Merrill Brody, Laura A. Roser,
Gregory D. Wood

DEFENDANTS.

Case: 2:11cv00357

Assigned To : Campbell, Tena

Assign. Date : 4/18/2011

Description: SEC v. Art Intellect et al.

COMPLAINT

Plaintiff, Securities and Exchange Commission (the "Commission"), for its
Complaint against Defendants Art Intellect, Inc. d/b/a Mason Hill and Virtual MG,
Patrick Merrill Brody, Laura A. Roser and Gregory D. Wood (collectively, the
"Defendants") alleges as follows:

INTRODUCTION

1. This matter involves an ongoing offering fraud and Ponzi scheme operated by a recidivist, Patrick M. Brody and his wife Laura Roser. Operating through an entity known as Mason Hill, Brody, Roser and a third person, Gregory Wood, have raised more than \$2.5 million from approximately 75 investors.

2. Mason Hill purports to offer investors the opportunity to invest in distressed real estate in several states, including Florida, Ohio and Kansas. Investors are told that Mason Hill offers “turnkey” investing opportunities in real estate. Mason Hill promises investors that it will locate properties, rehabilitate the properties, find renters for the properties and collect rent and manage the properties for investors.
3. Investor funds were not used to purchase properties for investors. Wood, the president of Mason Hill, admitted that investor funds have been used for Mason Hill’s operations, payments for Brody and Roser’s lavish personal expenses and to purchase a few properties for individual investors.
4. Later investor funds have been used to purchase properties for earlier investors, the hallmark of a classic Ponzi scheme.

JURISDICTION AND VENUE

5. This Court has subject matter jurisdiction by authority of Sections 20 and 22 of the Securities Act of 1933 (the “Securities Act”) [15 U.S.C. §§ 77t and 77v] and Sections 21 and Section 27 of the Securities Exchange Act of 1934 (the “Exchange Act”) [15 U.S.C. §§ 78u and 78aa].
6. Defendants, directly and indirectly, singly and in concert, have made use of the means and instrumentalities of interstate commerce and the mails in connection with the transactions, acts and courses of business alleged herein, certain of which have occurred within the District of Utah.
7. Venue for this action is proper in the District of Utah under Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and under Section 27 of the Exchange

Act [15 U.S.C. § 78aa] because certain of the transactions, acts, practices, and courses of business alleged in this Complaint took place in this district and because certain of the defendants reside in and transact business in this district.

8. Defendants, unless restrained and enjoined by this Court, will continue to engage in the transactions, acts, practices, and course of business alleged herein and in transactions, acts, practices, and courses of business of similar purport and object.
9. Defendants' conduct took place in connection with the offer, purchase and/or sale of Mason Hill's investment contracts.

DEFENDANTS

10. **Art Intellect, Inc. d/b/a Mason Hill and VirtualMG ("Mason Hill")** is a Utah corporation, founded by Roser, with its principal place of business in Salt Lake City, Utah. Investors have been solicited under the Mason Hill name, and Mason Hill is the name through which properties are to be purchased, rehabilitated and leased.
11. **Patrick Merrill Brody**, age 46, is a Utah resident living in Salt Lake City, Utah. Brody is married to Laura Roser and controls the operations of Mason Hill. Brody has never been registered with the Commission or any other regulatory agency in any capacity. Brody was enjoined from future violations of Sections 5(a), 5(c) and 17(a) of the Securities Act and Section 10(b) and Rule 10b-5 of the Exchange Act on February 4, 2011, in SEC v. Merrill Scott & Associates, Ltd., et al., 2:02-CV-0039TC (U.S.D.C. Utah). He was also

convicted of one misdemeanor count of failure to file a tax return for failing to report income received from Merrill Scott.

12. **Laura A. Roser**, age 30, is a Utah resident living in Salt Lake City, Utah. Roser is Brody's wife. Roser is the founder and president of Art Intellect, Inc., the founder of VirtualMG, and the CEO of Mason Hill.
13. **Gregory D. Wood**, age 41, is a Utah resident living in Salt Lake City, Utah. Wood has been the president of Mason Hill since October 2010.

STATEMENT OF FACTS

BACKGROUND

14. Since approximately April 2009, Mason Hill has sold investment contracts to approximately 75 investors raising at least \$2.5 million.
15. Mason Hill solicits investors through its website (www.masonhill.com), through "webinar" presentations, and other communications with investors.
16. The offer to sell securities through the website constitutes a general solicitation of investors.
17. Mason Hill also engages a network of "strategic partners" to solicit investors nationwide. The strategic partners are independent contractors recruited by Mason Hill to sell its investment contracts. These strategic partners include real estate brokers, financial planners, and others who refer investors to Mason Hill salespersons.
18. Mason Hill salespersons provide investors with further information through webinars and oral and written communications. Mason Hill promises its

strategic partners a \$1,000 to \$2,500 commission payment for each investor that invests with Mason Hill.

19. Mason Hill claims it offers a “turnkey” approach to real estate investing. Mason Hill purportedly purchases distressed real estate at a low price for investors, rehabilitates the properties and secures tenants.
20. Mason Hill claims it collects the rents, maintains the properties and promises investors a trouble-free option for investing in real estate.
21. Mason Hill, Brody, Roser and Wood sold securities in the form of investment contracts. No registration statement has been filed as to those securities.
22. Brody, Roser, Wood and Mason Hill salespersons are acting jointly as unregistered brokers in connection with their offers and sales of Mason Hill securities.
23. Brody, Roser and Wood acted as brokers by: (1) actively soliciting investors; (2) paying transaction-based compensation (i.e. commissions) to salespersons to solicit investor funds on behalf of Mason Hill; (3) handling investor funds; and (4) accepting orders from investors, both directly and through the sales force.
24. Neither Brody, Roser, Wood, nor the sales persons were associated persons of a registered broker-dealer at the time the sales took place.

REPRESENTATIONS TO INVESTORS

25. Mason Hill, through Brody, Roser and Wood, tells investors that it maintains an inventory of properties in well-desired areas with increasing property values that it will sell to investors at a substantial discount.

26. Initially, all of the properties were located in Florida, but Mason Hill has now expanded and offers properties in a number of areas, including Ohio and Kansas. Mason Hill represents that it acquires properties in bulk from banks to obtain them at lower prices than could an individual investor.
27. Mason Hill states that the properties are “newer” (built in 2004 to 2007 or later) and that Mason Hill refurbishes all properties to “near-new” condition, with new paint, remodeled kitchens, new appliances, and all repairs so that the properties are attractive to tenants.
28. Mason Hill claims that it has an on-site, in-house property management team that screens and places tenants so that the properties will already be rented and the investor can immediately obtain an income stream from the purchased property. Mason Hill explains that it will also manage the property after purchase, handling all maintenance, services, and rent collection, and that it will provide clients with a monthly payment and cash flow report.
29. Mason Hill and its employees or strategic partners have promised investors various returns, ranging from 10 to 30%, with monthly net rental profits of \$650 to \$1000 or more.
30. Investors have been told that they could reserve a Mason Hill property with a “reservation deposit” of \$20,000.
31. Investors were given information sheets and photographs of specific properties that Mason Hill purportedly owned and had available. Mason Hill created a sense of urgency to push investors to make reservation deposits by claiming

prices would be going up soon or that there was a waiting list and the property would only be available for a short time before someone else reserved it.

32. Once investors decided to invest, they would execute Reservation Agreements and send Mason Hill \$20,000 per property. Mason Hill claimed that these payments would be placed in an escrow account and applied as down payments toward the purchase of individual properties.

MASON HILL REPRESENTATIONS WERE FALSE

33. Mason Hill did not maintain an inventory of properties that could be sold to investors. Indeed, many investors were told that Mason Hill had purchased a specific property, only to discover later that Mason Hill had either (a) not purchased the real estate at all; or (b) had purchased a different property with their funds.
34. Many of the properties purchased by Mason Hill were not rehabilitated at all, but were in a state of disrepair and were not in rentable condition. Properties were sold to investors without tenants, although Mason Hill guaranteed the properties would be rented with reliable tenants and long-term leases at the time of closing.
35. Mason Hill has never purchased properties in bulk at discounts, but has purchased properties individually at the same price at which they could be obtained by an individual investor, thus investors were not receiving steep discounts on the properties as represented.
36. Properties advertised on Mason Hill's website as available were not actually owned by it, but may have been under contract or in negotiations.

37. Not all properties offered by Mason Hill are “turnkey” ready in that they are not refurbished to “near-new” condition.
38. Mason Hill has out-sourced property management to other companies, even though the website still states it has in-house, on-site property management.
39. Mason Hill is not able to “line up” financing or provide seller financing, as represented on the website and elsewhere.
40. Investor funds were not used as represented. Investors were told that once they reserved a property and paid the reservation deposit, the funds would be placed in escrow and applied to the purchase price of the property at closing.
41. Rather than being placed in escrow, however, Mason Hill commingled reservation deposits with Mason Hill’s operating accounts.
42. Investor funds were used to pay Mason Hill’s operating expenses, sales commissions, and the personal expenses of Pat Brody and Laura Roser. These personal expenses included lavish trips to New York, Florida, Las Vegas and San Diego, cruises, rare book purchases, Brody and Roser’s house and car payments, payments for a personal cook/shopper and the payments on a Cadillac Escalade used by Brody’s criminal defense lawyer.
43. Later investor funds were also used to purchase properties for earlier investors and to make putative profit payments to earlier investors, even when properties had not been purchased or rented as promised.
44. Mason Hill did not complete transactions as promised for a number of investors. Investors were promised that Mason Hill would provide seller financing or arrange financing at certain terms, but then financing would fall

through because of various reasons, including the properties would not appraise for a value high enough to qualify for the mortgage.

45. Several investors removed monies from IRA accounts to purchase the properties. When the sales did not close as represented, Mason Hill refused to refund deposits to these investors. Some investors are facing substantial tax consequences because IRA funds have been withdrawn and not replaced with an investment property.
46. Brody has instructed Mason Hill associates that deposits will not be returned, even though investors did not receive properties as represented. Brody maintained that Mason Hill was entitled to do whatever it wanted with investor deposits because the deposits were “non-refundable.”
47. The Defendants’ misrepresentations and omissions were material.
48. The Defendants knew, or were reckless in not knowing, that investor funds were not being used as promised, that investor funds were being used to pay Brody and Roser’s personal expenses and that Mason Hill did not have an inventory of properties to sell.
49. The Defendants knew, or were reckless in not knowing, that later investor funds were being used to purchase properties for earlier investors.

FIRST CAUSE OF ACTION
EMPLOYMENT OF A DEVICE, SCHEME OR ARTIFICE TO DEFRAUD
Violation of Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)]

50. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 49, above.
51. Defendants, and each of them, by engaging in conduct described in Paragraphs 1 through 49, above, directly or indirectly, in the offer or sale of

securities, by the use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, with scienter, employed devices, schemes, or artifices to defraud.

52. By reason of the foregoing, Defendants, and each of them, directly or indirectly, violated, and unless restrained and enjoined by this Court, will continue to violate Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

SECOND CAUSE OF ACTION
FRAUD IN THE OFFER AND SALE OF SECURITIES
Violations of Section 17(a)(2) and (3) of the Securities Act
[15 U.S.C. § 77q(a)(2) and (3)]

53. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 49, above.

54. Defendants, and each of them, by engaging in the conduct described in Paragraphs 1 through 49, above, directly and indirectly, in the offer and sale of securities, by the use of the means or instruments of transportation or communication in interstate commerce or by use of the mails, obtained money or property by means of untrue statements of material fact or by omitting to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, and engaged in transactions, practices, or courses of business which operate or would operate as a fraud or deceit upon the purchaser.

55. By reason of the foregoing, Defendants, and each of them, directly or indirectly, violated, and unless restrained and enjoined will continue to violate, Section 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)].

**THIRD CAUSE OF ACTION
FRAUD IN CONNECTION WITH THE PURCHASE AND
SALE OF SECURITIES**

**Violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5
thereunder [17 C.F.R. § 240.10b-5]**

56. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 49, above.
57. Defendants, and each of them, by engaging in the conduct described in Paragraphs 1 through 49, above, directly or indirectly, by the use of means or instrumentalities of interstate commerce or use of the mails, in connection with the purchase or sale of securities, with scienter, (1) employed devices, schemes, or artifices to defraud; (2) made untrue statements of material fact or omitted to state a material fact necessary in order to make statements made, in light of the circumstances under which they were made not misleading; or (3) engaged in acts, practices, or courses of business that operated or would operate as a fraud and deceit upon other persons.
58. By reason of the foregoing, Defendants, and each of them, violated, and unless restrained and enjoined will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

**FOURTH CAUSE OF ACTION
OFFER AND SALE OF UNREGISTERED SECURITIES**

Violation of Sections 5(a) and (c) of the Securities Act [15 U.S.C. § 77e(a) and (c)]

59. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 49, above.

60. Defendants, and each of them, by engaging in the conduct described in paragraphs 1 through 49, above, directly or indirectly, through use of the means or instruments of transportation or communication in interstate commerce or the mails, offered to sell or sold securities or, directly or indirectly, or carried such securities through the mails or in interstate commerce, for the purpose of sale or delivery after sale.
61. No registration statement has been filed with the Commission or has been in effect with respect to these securities.
62. By reason of the foregoing, Defendants, directly or indirectly violated, and unless enjoined will continue to violate Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a) and 77e(c)].

**FIFTH CAUSE OF ACTION
OFFER AND SALE OF SECURITIES BY AN
UNREGISTERED BROKER OR DEALER
Violation of Section 15(a) of the Exchange Act [15 U.S.C. § 78o(a)]**

63. The Commission realleges and incorporates by reference the allegations contained in Paragraphs 1 through 49, above.
64. Defendants Brody, Roser and Wood, directly or indirectly, made use of the mails or the means or instrumentalities of interstate commerce to effect transactions in, or to induce or attempt to induce the purchase and sale of, securities without being registered as a broker or dealer with the Commission or associated with a broker-dealer registered with the Commission.
65. By reason of the foregoing, Defendants Brody, Roser and Wood violated, and unless restrained and enjoined will continue to violate, Section 15(a) of the Exchange Act [15 U.S.C. 78o(a)].

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that this Court:

I

Issue findings of fact and conclusions of law that the Defendants committed the violations charged herein.

II

Issue in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure orders that temporarily, preliminarily and permanently enjoin, Defendants, and their officers agents, servants, employees, attorneys, and accountants, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from engaging in transactions, acts, practices, and courses of business described herein, and from engaging in conduct of similar purport and object in violation of Sections 5(a), 5(c) and 17(a) of the Securities Act, and Sections 10(b) of the Exchange Act and Rule 10b-5 thereunder.

III

Issue in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure orders that temporarily, preliminarily and permanently enjoin, Defendants Brody, Roser and Wood, and their officers agents, servants, employees, attorneys, and accountants, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from engaging in transactions, acts, practices, and courses of business described herein, and from engaging in conduct of similar purport and object in violation of Sections 5(a), 5(c) and 17(a) of the Securities Act, and Sections 10(b) and 15(a) of the Exchange Act and Rule 10b-5 thereunder.

IV

Issue, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, orders that temporarily, preliminarily and permanently enjoin Defendants, and their officers, agents, servants, employees, attorneys, and accountants, and those persons in active concert or participation with any of them, who receive actual notice of the order

by personal service or otherwise, and each of them, from: (A) transferring, changing, wasting, dissipating, converting, concealing, or otherwise disposing of, in any manner, any funds, assets, claims, or other property or assets owned or controlled by, or in the possession or custody of these Defendants; and (B) transferring, assigning, selling, hypothecating, or otherwise disposing of any assets of Mason Hill.

V

Issue in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure orders that temporarily, preliminarily and permanently restrain and enjoin Defendants, and each of them, and their officers agents, servants, employees, attorneys, and accountants, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from destroying, mutilating, concealing, transferring, altering, or otherwise disposing of, in any manner, books, records, computer programs, computer files, computer printouts, correspondence, including e-mail, whether stored electronically or in hard-copy, memoranda, brochures, or any other documents of any kind that pertain in any manner to the business of the Defendants.

VI

Enter an order directing Defendants, and each of them, to pay civil money penalties pursuant to Section 20(d) of the Securities Act and Section 21(d)(3) of the Exchange Act.

VII

Enter an order directing Defendants to disgorge all ill-gotten gains received during the period of violative conduct and pay prejudgment interest on such ill-gotten gains.

VIII

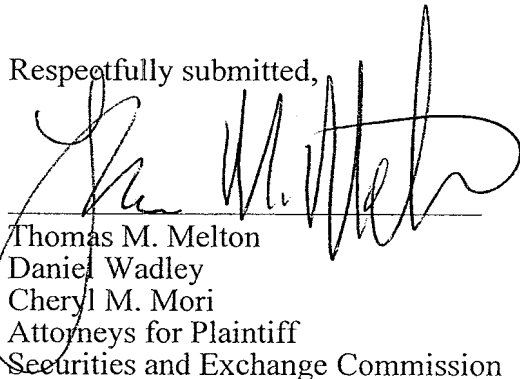
Grant such further equitable relief as this Court deems just, appropriate, and necessary, including, but not limited to, a freeze of assets, appointment of a receiver for Mason Hill and the acceleration of discovery, including the forthwith production of documents.

IX

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

Dated this 8th day of April 2011.

Respectfully submitted,



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