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EW APPLICATION

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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

2003 OCT 28 P 2:05

COMMISSIONERS

DOCKETED

OCT 28 2003

AZ CORP COMMISSION  
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MARC SPITZER, Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
MIKE GLEASON  
KRISTIN K. MAYES

DOCKETED BY

In the matter of:

DOCKET NO. S-03544A-03-0000

STEVEN C. BOND and JANE DOE BOND,  
husband and wife,  
2559 East Vaughn Court  
Gilbert, AZ 85234

NOTICE OF OPPORTUNITY FOR HEARING  
REGARDING PROPOSED ORDER TO  
CEASE AND DESIST, ORDER FOR  
RESTITUTION, FOR ADMINISTRATIVE  
PENALTIES, AND FOR OTHER  
AFFIRMATIVE ACTION

B.B. FINANCIAL BENEFITS GROUP,  
INC., an Arizona corporation  
2559 East Vaughn Court  
Gilbert, AZ 85234

Respondents.

**NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING**

**EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER**

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission") alleges that respondents have engaged in acts, practices and transactions that constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act").

**I.**

**JURISDICTION**

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

**II.**

**RESPONDENTS**

2. Respondent STEVEN C. BOND ("BOND") at all times material hereto was a married man and a resident of Arizona. At all times material hereto, BOND was licensed to sell

1 insurance in the state of Arizona, but was not registered as a securities salesperson or an investment  
2 adviser representative in Arizona.

3 3. RESPONDENT B.B. FINANCIAL BENEFITS GROUP, INC. ("B.B.") is a  
4 corporation, organized and authorized to do business in Arizona. BOND is B.B.'s only officer and  
5 director.

6 4. JANE DOE BOND was at all relevant times the spouse of BOND. JANE DOE  
7 BOND is joined in this action under A.R.S. § 44-2031(C) solely for purposes of determining the  
8 liability of the marital community. The true name of JANE DOE BOND is presently unknown; the  
9 Division will seek leave to amend this Notice to allege the true name of that respondent upon  
10 learning that name.

11 5. At all times relevant, BOND and JANE DOE BOND were acting for their own  
12 benefit, and for the benefit or in furtherance of the marital community.

13 6. BOND, B.B., and JANE DOE BOND may be collectively referred to herein as  
14 "RESPONDENTS." JANE DOE BOND may be referred to herein as "RESPONDENT SPOUSE."

15 **III.**

16 **FACTS**

17 7. At all times material hereto, Alpha Telcom, Inc. ("Alpha") was an Oregon  
18 corporation located at 2751 Highland Avenue, Grants Pass, Oregon 97526.

19 8. At all times material hereto, American Telecommunications Company, Inc.  
20 ("ATC") was a Nevada corporation formed as a wholly owned subsidiary of Alpha on or about  
21 September 17, 1998. The corporate name was originally ATC, Inc., but was changed to American  
22 Telecommunications Company, Inc., sometime in the first half of 2000. Its address initially was  
23 the same as Alpha's, but was later changed to 620 S.W. 4<sup>th</sup> Street, Grants Pass, Oregon 97526, then  
24 to 2900 Vine Street, Suite J, Grants Pass, Oregon 97526, and then to 942 S.W. 6<sup>th</sup> Street, Suite G,  
25 Grants Pass, Oregon 97526.

26 9. At all times material hereto, Paul S. Rubera ("Rubera") was the president and

1 control person of Alpha, and the control person of ATC.

2 10. Rubera organized ATC and operated ATC in conjunction with and as an alter ego of  
3 Alpha. Rubera and his associates controlled the two companies.

4 11. At all times material hereto, Alpha and ATC, and their affiliates, sold pay  
5 telephones with telephone service agreements pursuant to which the investor would share in the  
6 profits of the pay telephone. Through the pay telephone investment program, Alpha and/or ATC  
7 and/or their agents and/or affiliates raised approximately \$135 million nationwide, from at least  
8 7,000 investors, between 1997 and 2001.

9 12. Alpha/ATC sales agents, including BOND and/or B.B., claimed the pay telephones  
10 were specially designed to accommodate the needs of persons with disabilities. In this way, the  
11 sales agents, including BOND and/or B.B., convinced investors that the investment contracts  
12 provided an opportunity to help persons with disabilities, and to qualify for a tax credit, as well as  
13 an opportunity to realize a high return on invested funds.

14 13. An investor who purchased an Alpha investment contract would execute two  
15 agreements, a purchase agreement, and a service agreement with Alpha to manage the phone.  
16 Sales agents of Alpha/ATC, including BOND and/or B.B., presented and promoted the two  
17 agreements simultaneously. The agreements offered four options for servicing the pay telephones  
18 for the investor to consider. The four options varied from "Level 1," pursuant to which Alpha  
19 would provide minimal services and the investor would have to perform substantial work to  
20 manage the pay telephone, to "Level 4," pursuant to which Alpha would provide all necessary  
21 services, including choosing a site and installing the telephone, collecting all revenue from the pay  
22 telephone's operation, and cleaning and repairing the telephone when necessary. Under Level 4,  
23 Alpha would split the net proceeds with the investor on a 70/30 basis, with Alpha retaining 70%  
24 and the investor receiving 30%.

25 14. The agreements provided that, only if the investor selected the "Level 4" service  
26 option, the investor would have the option to recover the investment principal by requiring ATC to

1 buy the investor's telephone at the original purchase price. This provision was referred to as the  
2 "buyback option." (If the investor exercised the option within the first 36 months after making the  
3 investment, a penalty would reduce the buyback price.) If the investor selected any of the first  
4 three levels of service, the investor would have no right to recover the principal invested by selling  
5 the pay telephone back to ATC.

6 15. The price of the pay telephones was the same regardless of the service option  
7 chosen, \$5,000.00 per telephone. No known Arizona investor who purchased through BOND  
8 and/or B.B. picked a company other than Alpha to manage their phones, or chose a service level  
9 other than Level 4. The investors to whom BOND and/or B.B. sold Alpha investment contracts  
10 lacked expertise in the business of owning and managing pay telephones. The role of the investors  
11 was limited to investing capital and collecting a return on the investment.

12 16. Alpha/ATC sales agents, including BOND and/or B.B., declared that a "typical  
13 return" on each pay telephone would amount to 14% per year. In practice, all purchasers received  
14 \$58.34 per month per pay telephone purchased, which amounted to exactly 14% per annum, rather  
15 than receiving an amount related to the revenue generated by any particular pay telephone..

16 17. ATC's primary role was marketing the contracts. Alpha's main focus was on  
17 obtaining phone sites and installing, servicing, and managing the phones.

18 18. ATC was presented to the public as the sales organization for Alpha. In early 1999,  
19 ATC engaged Strategic Partnership Alliance, L.L.C., a Nevada limited liability company, and/or  
20 SPA Marketing, L.L.C., a Nevada limited liability corporation, (collectively "SPA") as its  
21 independent marketing and sales firm(s). SPA thereafter was responsible for hiring, training, and  
22 supervising sales agents who were selling the telephone contracts. After SPA came on board, ATC  
23 remained as the processing center for the contracts, while Alpha continued to perform the service  
24 and maintenance of the phones.

25 19. BOND and/or B.B., directly or indirectly, entered into agreements with Alpha,  
26 ATC, and/or SPA, pursuant to which BOND and/or B.B. sold investment contracts involving

1 Alpha pay telephones (the "Alpha investment contracts") within or from the state of Arizona. All  
2 Alpha investment contracts BOND and/or B.B. sold were Level 4 contracts.

3 20. BOND and/or B.B. told prospective investors that the Alpha/ATC investment was  
4 virtually risk-free and completely liquid, because of ATC's buyback obligation. Beginning not  
5 later than May 1, 2000, BOND and/or B.B. added the representation that the Alpha/ATC  
6 investment was safe because the buyback obligation was insured by solid insurance companies. To  
7 some investors, BOND and/or B.B. named, or provided documents which named, the Northern and  
8 Western Insurance Company of Grand Turk, Turks and Caicos Islands, British West Indies  
9 ("N&W"). BOND and/or B.B. also named, or provided documents which named, Lloyd's of  
10 London and/or other insurance companies, listed as re-insurers of ATC's promise. In fact, if any  
11 such insurance existed at all, it was "excess" coverage – ATC was supposed to cover the first  
12 \$2,000,000 of buyback claims. N&W was a captive insurance company wholly owned by Paul S.  
13 Rubera, the president and control person of Alpha/ATC, and Robert S. Harrison of Richmond,  
14 Texas. N&W was not authorized to write insurance in Arizona during the relevant time period.  
15 BOND and/or B.B. did not disclose those facts to investors. Neither ATC nor any insurance  
16 company has ever honored any BOND and/or B.B. investor's exercise of the "buyback option,"  
17 despite timely demand. ATC did not pay \$5,000 per telephone, and no insurance company paid  
18 \$5,000 per telephone, to any BOND and/or B.B. investor.

19 21. BOND presented Alpha to prospective customers as a stable, profitable, and  
20 innovative company that had been in business since 1985. Alpha was said to be selling and  
21 providing a "turn-key" operation.

22 22. BOND and/or B.B. received set commissions with respect to each Alpha investment  
23 contract sold by BOND and/or B.B.

24 23. BOND and/or B.B. sold Alpha investment contracts involving at least 193 telephones  
25 to at least 20 individuals or entities within or from the state of Arizona from October 2000 through  
26 May 2001, for a total sales amount of at least \$965,000.

1           24.    BOND and/or B.B. received commissions on these sales from Alpha and/or ATC  
2 and/or SPA in an amount not less than \$164,050.

3           25.    Alpha has a long regulatory history in which state securities regulators have found that  
4 these purchases of pay telephones and accompanying service contracts were unregistered securities in  
5 the form of investment contracts that were sold by unregistered persons and/or entities, and ordered  
6 Alpha and those working with it to cease and desist. On information and belief, BOND and/or B.B.  
7 did not reveal these orders to the majority of the investors with whom he dealt. The orders that BOND  
8 and/or B.B. could have revealed include:

- 9           a.    February 2, 1999, Cease and Desist Order issued by Pennsylvania Securities  
10           Commission in *In the Matter of Alpha Telcom, Inc., et al.*, No. 9812-06.
- 11           b.    November 17, 1999, Cease and Desist Order issued by North Carolina  
12           Secretary of State in *In the Matter of the North Carolina Securities Division*  
13           *v. ATC, Inc., Paul Rubera, et al.*, No. 99-038-CC.
- 14           c.    June 30, 1999, Temporary Order of Prohibition issued by Illinois Secretary  
15           of State in *In the Matter of Alpha Telcom, Inc.*, No. 9900201.
- 16           d.    January 14, 2000, Consent Order of Prohibition issued by Illinois Secretary  
17           of State in *In the Matter of Alpha Telcom, Inc.*, No. 9900201, Alpha agreeing  
18           to offer rescission to all Illinois purchasers.
- 19           e.    November 24, 1999, Cease and Desist Order issued by Wisconsin  
20           Department of Financial Institutions in *In the Matter of Alpha Telcom, Inc.*  
21           *and Paul S. Rubera, et al.*, No. S-99225(EX).
- 22           f.    March 7, 2000, Temporary Cease and Desist Ordered issued by Rhode  
23           Island Department of Business Regulation in *In the Matter of Alpha Telcom,*  
24           *Inc. and ATC, Inc.*
- 25           g.    July 18, 2000, Florida Department of Banking and Finance filed  
26           administrative action against Alpha and others, seeking a Cease and Desist  
            Order.
- h.    October 24, 2000, Desist and Refrain Order issued by California Department  
            of Corporations.

24           26.    Actions that have proceeded against Alpha after BOND and/or B.B. ceased sales  
25 of the Alpha investment contracts include the following:  
26

- 1 a. July 26, 2001, Cease and Desist Order issued by Ohio Commissioner of Securities;
- 2 b. August 27, 2001, Temporary Restraining Order issued by United States District Court, District of Oregon, in *SEC v. Alpha Telcom, Inc., et al.*, No. CV 01-1283 PA
- 3
- 4 c. September 5, 2001, Cease and Desist Order issued by Arkansas Securities Department in *In the Matter of Alpha Telcom, Inc., et al.*, No. 01-36-S.
- 5
- 6 d. September 6, 2001, Preliminary Injunction issued by United States District Court, District of Oregon, in *SEC v. Alpha Telcom, Inc., et al.*, No. CV 01-1283 PA.
- 7
- 8 e. February 7, 2002, Final Judgment of Permanent Injunction issued by United States District Court, District of Oregon, in *SEC v. Alpha Telcom, Inc., et al.*, No. CV 01-1283 PA.
- 9
- 10 f. March 13, 2002, Final Order to Cease and Desist issued by Washington Department of Financial Institutions in *In the Matter of Alpha Telcom, Inc., et al.*, No. SDO-21-02.
- 11

12 The SEC's Complaint in the United States District Court, District of Oregon, alleged that Alpha  
13 and its affiliates engaged in a Ponzi-like scheme that never generated enough income to pay  
14 expenses, and that the money paid to existing investors always came from sales to new investors.  
15 Several days before the Oregon court issued a Temporary Restraining Order on August 27, 2001,  
16 Alpha sought bankruptcy protection in Florida pursuant to chapter 11 of the Bankruptcy Code. A  
17 court-appointed receiver subsequently took over the remaining operations of Alpha. Alpha  
18 consented on October 19, 2001 to entry of the Final Judgment of Permanent Injunction against it,  
19 but did not admit the allegations of the Complaint.

20 27. On February 7, 2002, the United States District Court for the District of Oregon  
21 issued its final opinion in connection with the trial of Rubera. That opinion is reported at *SEC v.*  
22 *Alpha Telcom*, 187 F. Supp. 2d 1250 (D. Or. 2002). In its opinion, the court confirmed that the  
23 Alpha investment contracts are securities and thus subject to regulation as securities. The court  
24 also confirmed that Alpha operated what was essentially a Ponzi scheme in connection with the  
25 sales of the Alpha investment contracts.

26 28. Monthly payments to investors ceased prior to August, 2001.

1 **IV.**

2 **VIOLATION OF A.R.S. § 44-1841**

3 **(Offer or Sale of Unregistered Securities)**

4 29. From on or about October 1, 2000, BOND and/or B.B. offered or sold securities in  
5 the form of investment contracts in Alpha, within or from Arizona.

6 30. The securities referred to above were not registered pursuant to Articles 6 or 7 of the  
7 Securities Act.

8 31. This conduct violates A.R.S. § 44-1841.

9 **V.**

10 **VIOLATION OF A.R.S. § 44-1842**

11 **(Transactions by Unregistered Dealers or Salesmen)**

12 32. BOND and/or B.B. offered or sold securities within or from Arizona while not  
13 registered as a dealer or salesman pursuant to Article 9 of the Securities Act.

14 33. This conduct violates A.R.S. § 44-1842.

15 **VI.**

16 **VIOLATION OF A.R.S. § 44-1991**

17 **(Fraud in Connection with the Offer or Sale of Securities)**

18 34. In connection with the offer or sale of securities within or from Arizona, BOND  
19 and/or B.B. directly or indirectly: (i) employed a device, scheme or artifice to defraud; (ii) made  
20 untrue statements of material fact or omitted to state material facts which were necessary in order to  
21 make the statements made not misleading in light of the circumstances under which they were  
22 made; or (iii) engaged in transactions, practices or courses of business which operated or would  
23 operate as a fraud or deceit upon offerees and investors. The conduct of BOND and/or B.B.  
24 includes, but is not limited to, the following:

- 25 a) BOND and/or B.B. failed to advise purchasers of the state regulatory actions against  
26 Alpha and of the potential consequences of those orders with respect to their

1 investment;

2 b) BOND and/or B.B. represented to purchasers that their investment and/or the pay  
3 telephones they purchased from Alpha were fully insured, when they were not, in  
4 fact, insured by any insurance company authorized to provide insurance in Arizona  
5 or in any state in which the pay telephones were located;

6 c) BOND and/or B.B. represented to purchasers that monies they would receive as a  
7 result of their investment in Alpha were derived from profits on pay telephones,  
8 when in fact the returns paid to investors came from purchases by subsequent  
9 investors.

10 35. This conduct violates A.R.S. § 44-1991.

11 **VII.**

12 **REQUESTED RELIEF**

13 The Division requests that the Commission grant the following relief:

14 1. Order BOND and/or B.B. to permanently cease and desist from violating the  
15 Securities Act, pursuant to A.R.S. § 44-2032;

16 2. Order BOND and/or B.B. to take affirmative action to correct the conditions  
17 resulting from their acts, practices or transactions, including a requirement to make restitution  
18 pursuant to A.R.S. § 44-2032;

19 3. Order BOND and/or B.B. to pay the state of Arizona administrative penalties of up  
20 to five thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-  
21 2036;

22 4. Order that the marital community of BOND and JANE DOE BOND be subject to  
23 any order of restitution, rescission, administrative penalties, or other appropriate affirmative action  
24 pursuant to A.R.S. § 25-215; and

25 5. Order any other relief that the Commission deems appropriate.

26 ...

## VIII.

## HEARING OPPORTUNITY

RESPONDENTS, including respondent JANE DOE BOND, may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. R14-4-306. **If any RESPONDENT requests a hearing, that RESPONDENT must also answer this Notice.** A request for hearing must be in writing and received by the Commission within ten (10) business days after service of this Notice of Opportunity for Hearing. Each respondent must deliver or mail the request to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007. A Docket Control cover sheet must accompany the request. A cover sheet form and instructions may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at [www.cc.state.az.us/utility/forms/index.htm](http://www.cc.state.az.us/utility/forms/index.htm).

If a request for a hearing is timely made, the Commission shall schedule the hearing to begin 20 to 60 days from the receipt of the request unless otherwise provided by law, stipulated by the parties, or ordered by the Commission. If a request for a hearing is not timely made the Commission may, without a hearing, enter an order granting the relief requested by the Division in this Notice of Opportunity for Hearing.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Yvonne L. McFarlin, Executive Assistant to the Executive Secretary, voice phone number 602/542-3931, e-mail [ymcfarlin@cc.state.az.us](mailto:ymcfarlin@cc.state.az.us). Requests should be made as early as possible to allow time to arrange the accommodation.

## IX.

## ANSWER REQUIREMENT

Pursuant to A.A.C. R14-4-305, if any RESPONDENT (or RESPONDENT SPOUSE) requests a hearing, each RESPONDENT or RESPONDENT SPOUSE must deliver or mail an Answer to this Notice of Opportunity for Hearing to Docket Control, Arizona Corporation

1 Commission, 1200 W. Washington, Phoenix, Arizona 85007, within 30 calendar days after the  
2 date of service of this Notice. A Docket Control cover sheet must accompany the Answer. A  
3 cover sheet form and instructions may be obtained from Docket Control by calling (602) 542-3477  
4 or on the Commission's Internet web site at [www.cc.state.az.us/utility/forms/index.htm](http://www.cc.state.az.us/utility/forms/index.htm).

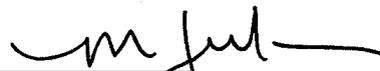
5 Additionally, each RESPONDENT or RESPONDENT SPOUSE must serve the Answer  
6 upon the Division. Pursuant to A.A.C. R14-4-303, service upon the Division may be made by  
7 mailing or by hand-delivering a copy of the Answer to the Division at 1300 West Washington, 3<sup>rd</sup>  
8 Floor, Phoenix, Arizona 85007, addressed to Kathleen Coughenour DeLaRosa.

9 The Answer shall contain an admission or denial of each allegation in this Notice and the  
10 original signature of each RESPONDENT or RESPONDENT's attorney. A statement of a lack of  
11 sufficient knowledge or information shall be considered a denial of an allegation. An allegation  
12 not denied shall be considered admitted.

13 When any RESPONDENT or RESPONDENT SPOUSE intends in good faith to deny only  
14 a part or a qualification of an allegation, that RESPONDENT or RESPONDENT SPOUSE shall  
15 specify that part or qualification of the allegation and shall admit the remainder. Each  
16 RESPONDENT and RESPONDENT SPOUSE waive any affirmative defense not raised in the  
17 answer.

18 The officer presiding over the hearing may grant relief from the requirement to file an  
19 Answer for good cause shown.

20 DATED this 27 day of October, 2003.

21  
22 

23 Matthew J. Neubert  
24 Acting Director of Securities

# NEW APPLICATION

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## Memorandum

**DATE:** October 28, 2003  
**TO:** Nancy Cole  
Docket Control  
**FROM:** Kathleen Coughenour DeLaRosa *kcd*  
Securities Division  
**RE:** *In re Steven C. Bond, et ux., et al.*  
Docket No. S-03544A-03-0000  
Assigned Staff  
**CC:** LaShunda Duty

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This is to notify you that the following individuals have been assigned to the above-mentioned case.

Matthew Neubert

LeRoy Johnson

Kathleen Coughenour DeLaRosa (Staff Attorney)

Terry Nelson (Staff Investigator)

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