

NEW APPLICATION
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AZ CORP COMMISSION
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Arizona Corporation Commission
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER, Chairman
JIM IRVIN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

In the matter of:)
 INTERNATIONAL GLOBAL POSITIONING,)
 INC., a Nevada corporation)
 720 Brazos Street, Suite 500)
 Austin, TX 78701)
 JOHN J. MADSEN)
 11801 W HWY 71)
 Austin TX 78738)
 MICHAEL J. COKER)
 11801 W. HWY 71)
 Austin, TX 78738)
 JAMES W. DREOS, individually and dba)
 DREOS FINANCIAL SERVICES, and JANE)
 DOE DREOS, husband and wife)
 10201 E. North Ranch Gate Road)
 Scottsdale, AZ 85255)
 CRD# 802681)
 EDMOND L. LONERGAN and JANE DOE)
 LONERGAN, husband and wife)
 16126 East Powderhorn Drive)
 Fountain Hills, AZ 85268)
 CORPORATE ARCHITECTS, INC., a Nevada)
 corporation)
 8360 East Via de Ventura, Suite L-200)
 Scottsdale, AZ 85258)
 Respondents.)

DOCKET NO. S-03523A-03-0000

**NOTICE OF OPPORTUNITY FOR
HEARING REGARDING PROPOSED
ORDER TO CEASE AND DESIST, FOR
RESTITUTION, FOR
ADMINISTRATIVE PENALTIES, OF
REVOCATION AND/OR SUSPENSION,
AND FOR OTHER AFFIRMATIVE
ACTION**

**NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING
EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER**

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1 The Securities Division ("Division") of the Arizona Corporation Commission
2 ("Commission") alleges that RESPONDENTS INTERNATIONAL GLOBAL POSITIONING, INC.
3 ("IGP"), JOHN J. MADSEN ("MADSEN"), MICHAEL J. COKER ("COKER"), JAMES W.
4 DREOS, individually and doing business as DREOS FINANCIAL SERVICES (collectively,
5 "DREOS"), EDMOND L. LONERGAN ("LONERGAN"), and CORPORATE ARCHITECTS,
6 INC. ("CAI") have engaged in acts, practices and transactions, which constitute violations of the
7 Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act").

8 **I.**

9 **JURISDICTION**

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

12 **II.**

13 **RESPONDENTS**

14 2. IGP was incorporated in the State of Nevada on May 15, 2000. At all pertinent times, IGP
15 operated from offices in Arizona located at 10245 E. Via Linda, Suite 220, Scottsdale, Arizona
16 85258-5317, until approximately June 2001. Upon information and belief, IGP'S principal offices
17 are currently located at 720 Brazos Street, Austin, Texas 78701.

18 3. MADSEN was at all pertinent times Director of Sales and Marketing of IGP, residing at
19 15634 S. 6th Place, Phoenix, AZ 85048. MADSEN'S last known address is 11801 W. HWY 71,
20 Austin, TX 78738. On November 5, 2001, MADSEN pled guilty to mail fraud in the United States
21 District Court, District of Arizona, a violation of Title 18, United States Code, Section 1341, a Class
22 D felony offense. MADSEN agreed to the following facts, and agreed that the government could
23 prove the following elements:

24 First, between mid-1994 and mid-1998 originating elsewhere and
25 continuing within the District of Arizona, the defendant made up a
26 scheme or plan for obtaining money or property by making false
promises or statements;

1 Second, the defendant knew that the promises or statements were
false;

2 Third, the promises or statements were material, that is, they would
3 reasonably influence a person to part with money or property;

4 Fourth, the defendant acted with the intent to defraud; and

5 Fifth, the defendant used, or caused to be used, the mails to carry out
or attempt to carry out an essential part of the scheme.

6 *United States of America v. John J. Madsen*, Plea Agreement, CR-01-1010-PHX-SRB, U.S. District
7 Court, District of Arizona, lodged on November 5, 2001.

8 4. COKER was at all pertinent times President and Chief Executive Officer of IGP, residing at
9 15634 S. 6th Place, Phoenix, AZ 85048. COKER'S last known address is 11801 W. HWY 71,
10 Austin, TX 78738. COKER signed all stock certificates and warrants to purchase common stock
11 issued by IGP to investors, and all correspondence relating to the investments, as President and/or
12 President/CEO of IGP.

13 5. DREOS was at all pertinent times a registered securities salesman in Arizona, since January
14 7, 1992, CRD# 802681. DREOS'S last known address is 10201 E. North Ranch Gate Road,
15 Scottsdale, AZ 85255. DREOS was registered as a securities salesman in Arizona in association
16 with American General Securities, Inc. ("AGSI") from November 8, 2001, until he was discharged
17 on or about September 12, 2002. All allegations contained in this Notice of Opportunity for
18 Hearing occurred while DREOS was registered with AGSI.

19 6. From on or about October 9, 2002 until on or about March 25, 2003, DREOS was registered
20 as a securities salesman in association with Fox & Company Investments Inc. Pursuant to A.R.S. §
21 44-1949, DREOS'S registration as a securities salesman in Arizona was automatically suspended
22 on the date of his termination with Fox & Company Investments Inc., on or about October 9, 2002.
23 Since that date, DREOS has not been registered with any securities dealer. Therefore, pursuant to
24 A.R.S. § 44-1947(B), DREOS'S registration expired on December 31, 2002. The Commission has
25 the statutory authority pursuant to A.R.S. § 44-1963(D) and A.R.S. § 44-1947(D), to bring this

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1 action to suspend or revoke DREOS'S registration as an Arizona securities salesman within two
2 years after the termination or lapse of his registration.

3 7. DREOS was at all pertinent times licensed with the Arizona Department of Insurance as an
4 insurance salesman, authorized to sell accident, health, and life insurance, and variable life and
5 annuities products. DREOS'S authority to sell variable life and annuities products expired on
6 September 30, 2003. DREOS'S authority to sell accident, health, and life products is current until
7 September 30, 2005.

8 8. ESTHER DREOS was at all pertinent times the spouse of DREOS. ESTHER DREOS is
9 joined in this action under A.R.S. § 44-2031(C) solely for purposes of determining the liability of
10 the marital community.

11 9. At all pertinent times, DREOS was acting for his own benefit, and for the benefit or in
12 furtherance of the marital community.

13 10. LONERGAN'S last known address is 16126 East Powderhorn Drive, Fountain Hills, AZ
14 85268. LONERGAN is an officer and director of CAI.

15 11. JANE DOE LONERGAN was at all pertinent times the spouse of LONERGAN. JANE
16 DOE LONERGAN is joined in this action under A.R.S. § 44-2031(C) solely for purposes of
17 determining the liability of the marital community.

18 12. At all pertinent times, LONERGAN was acting for his own benefit, and for the benefit or in
19 furtherance of the marital community.

20 13. CAI was at all pertinent times a Nevada corporation, operating in Scottsdale, Arizona.
21 CAI's last known address is 8360 East Via de Ventura, Suite L-200, Scottsdale, AZ 85258.

22 14. IGP, MADSEN, COKER, DREOS, LONERGAN, and CAI may be collectively referred to
23 as "RESPONDENTS." ESTHER DREOS and JANE DOE LONERGAN may be referred to as
24 RESPONDENT SPOUSES.

25 15. LONERGAN and CAI may be referred to as "LONERGAN".

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III.**FACTS**

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3 16. IGP purported to market a global positioning device that, mounted in an automobile, could
4 communicate through a satellite, on a cellular communications technology, information including
5 where it was located, its speed and direction. IGP's plan was to sell stock to private investors and
6 distributorship franchises nationwide to market the device. In or around July 2001, IGP initiated a
7 stock offering, represented as a private placement under federal Rule 506, Regulation D.

8 17. In or around October 2001, MADSEN formed an association with DREOS, who was
9 interested in selling "key-man" life insurance to the principals of IGP, and LONERGAN, who was
10 interested in assisting IGP in its efforts to take the company's stock public in an initial public
11 offering.

12 18. DREOS offered to assist IGP in its efforts to raise private investor funds by referring his
13 insurance customers to purchase stock in IGP'S private offering, on the condition that the principals
14 of IGP would purchase key-man insurance from him, for which DREOS would earn substantial
15 commissions.

16 19. Beginning in or around November 2001, DREOS initiated contacts with his insurance clients
17 for the purpose of inducing them to contact MADSEN for the purchase of IGP private placement
18 stock.

19 20. DREOS invited prospective investors to meetings with MADSEN, who made representations
20 concerning plans for taking IGP public as early as January 2002, and promised substantial potential
21 profit for private investors from trading IGP stock in the public market. LONERGAN assisted in
22 some of these presentations, and spoke optimistically of IGP'S imminent plans to take the company
23 into the public market.

24 21. One of Respondents' inducements for investors to purchase stock in IGP'S private offering
25 was that private investors would receive warrants to purchase IGP stock in an initial public offering.
26 Investors were told that when the company went public, they would have the opportunity to purchase

1 IGP stock for the reduced price that they paid for their private placement stock, and to resell the stock
2 they purchased in the initial public offering at one and one-half times its original purchase price,
3 thereby recouping the original purchase price of their privately-held stock.

4 22. From about November 2001 through April 2002, through the efforts of Respondents,
5 approximately 33 investors, mostly Arizona residents, invested \$546,500 in IGP private placement
6 stock.

7 23. Although the IGP Offering Memorandum stated that the offering was "For Accredited
8 Investors Only," several of the investors were not "accredited" as that term is defined under federal
9 and state securities laws.

10 24. Some investors did not receive IGP private placement memoranda, or meaningful disclosure
11 of material information about IGP and its principals, prior to investing.

12 25. To this date, IGP is not listed on any public exchange, and the investors have received no
13 return on their investments.

14 26. Upon information and belief, DREOS, knowing that his dealer prohibited his participation in
15 raising venture capital or receiving commissions on the sale of securities that were not approved by
16 his dealer, and that such conduct would result in termination of his employment with AGSI,
17 instructed IGP to pay any compensation resulting from his efforts to raise investor funds to CAI.
18 DREOS drafted a consulting agreement with CAI, whereby DREOS would receive consulting fees
19 from CAI, ostensibly for "Marketing and advertising materials."

20 27. On or about December 20, 2001, IGP paid CAI approximately \$40,000 as commissions for
21 investor funds raised from clients referred by DREOS. On or about December 20, 2001, CAI paid
22 DREOS approximately \$20,000, 50% of the commissions IGP paid to CAI, ostensibly as "consulting
23 fees."

24 28. From late January 2002 through early March 2002, AGSI paid DREOS approximately
25 \$209,000 in commissions, on the sales of variable life insurance policies to MADSEN and COKER.
26 The policies lapsed in October 2002, due to failure to pay large premiums. When the policies lapsed,

1 the companies that issued the policies charged back to AGSI the total amount of commissions paid to
2 DREOS for the MADSEN and COKER policies. Upon information and belief, DREOS paid back
3 only \$16,770 of the debt owed to AGSI, which AGSI retired, prior to AGSI'S termination of
4 DREOS, by set-offs against commissions DREOS earned from life insurance companies affiliated
5 with AGSI.

6 29. Upon information and belief, on or about December 12, 2001, DREOS took one of his
7 customers to a meeting with MADSEN, where the customer invested \$50,000 in IGP stock. After
8 that meeting, DREOS borrowed \$25,000 from that customer to purchase IGP stock for himself.
9 DREOS'S customer was also a client of AGSI. The customer was not a relative of DREOS, or in the
10 business of lending funds. At the time that he received the borrowed funds, DREOS told the
11 customer that he would repay him in two weeks. As of May 2003, DREOS still had not repaid the
12 customer.

13 30. DREOS'S participation in the sale of IGP stock was not approved by his dealer, AGSI.

14 31. Upon information and belief, in or around April 2002, DREOS borrowed \$15,000 from
15 another client, whose spouse was also a customer of AGSI, to purchase the Arizona distributorship
16 for marketing the IGP global positioning device.

17 32. On or around September 12, 2002, AGSI terminated DREOS for failing to follow the firm's
18 outside business activity policy, specifically for failing to disclose and obtain prior written
19 permission as required by the firm in connection with his acting as a consultant and for purchasing a
20 distributorship, related to his conduct with CAI and IGP.

21 33. On or about October 18, 2002, responding to the Division's request for a detailed explanation
22 of his conduct with respect to the matters reported on his U-4 reported on the CRD system, in
23 connection with his application to affiliate with a new dealer as a securities salesman in Arizona,
24 DREOS provided a written statement to the Division in which he failed to disclose that he assisted
25 IGP in raising funds from the sale of stock by referring his insurance clients to IGP and MADSEN.

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IV.

VIOLATION OF A.R.S. § 44-1841

(Offer or Sale of Unregistered Securities)

34. From on or about April 1999 to in or around May 2002, RESPONDENTS offered or sold securities in the form of stock, within or from Arizona.

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

36. This conduct violates A.R.S. § 44-1841.

37. MADSEN and COKER directly or indirectly controlled IGP within the meaning of A.R.S. § 44-1841. Therefore, MADSEN and COKER are liable to the same extent as IGP for its violations of A.R.S. § 44-1991, pursuant to A.R.S. § 44-1999(A).

38. LONERGAN directly or indirectly controlled CAI within the meaning of A.R.S. § 44-1999. Therefore, LONERGAN is liable to the same extent as CAI for its violations of A.R.S. § 44-1841, pursuant to A.R.S. § 44-1999(A).

39. RESPONDENTS participated in or induced the sales of securities within the meaning of A.R.S. § 44-2003(A). Therefore, RESPONDENTS are jointly and severally liable for violations of A.R.S. § 44-1841.

V.

VIOLATION OF A.R.S. § 44-1842

(Transactions by Unregistered Dealers or Salesmen)

40. RESPONDENTS IGP, MADSEN, COKER, LONERGAN, and CAI offered or sold securities within or from Arizona, while not registered as dealers or salesmen pursuant to the provisions of Article 9 of the Securities Act.

41. This conduct violates A.R.S. § 44-1842.

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VI.

VIOLATION OF A.R.S. § 44-1991

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

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

- a) Misrepresenting and/or failing to adequately disclose the risks of the investment, including the potential for the company to trade its stock in the public market;
- b) Failing to adequately disclose the financial condition of IGP;
- c) Failing to disclose and/or misrepresenting the specific uses of investor funds;
- d) Failing to disclose the background and track record of IGP and its principals, in particular, that in November 2001, MADSEN, the Director of Sales and Marketing for IGP, pled guilty to mail fraud, a felony involving a scheme or plan for obtaining money or property by making false promises or statements with the intent to defraud.

43. This conduct violates A.R.S. § 44-1991.

44. MADSEN and COKER directly or indirectly controlled IGP within the meaning of A.R.S. § 44-1999. Therefore, MADSEN and COKER are liable to the same extent as IGP for its violations of A.R.S. § 44-1991, pursuant to A.R.S. § 44-1999(B).

45. LONERGAN directly or indirectly controlled CAI within the meaning of A.R.S. § 44-1999. Therefore, LONERGAN is liable to the same extent as CAI for its violations of A.R.S. § 44-1991, pursuant to A.R.S. § 44-1999(B).

1 46. RESPONDENTS participated in or induced the sales of securities within the meaning of
2 A.R.S. § 44-2003(A). Therefore, RESPONDENTS are jointly and severally liable for violations of
3 A.R.S. § 44-1991.

4 **VII.**

5 **REMEDIES PURSUANT TO A.R.S. § 44-1962**

6 **(Denial, Revocation or Suspension of Registration of Salesman)**

7 47. DREOS'S conduct is grounds to revoke or suspend DREOS'S registration as a securities
8 salesman with the Commission pursuant to A.R.S. § 44-1962. Specifically, DREOS has:

9 a) Violated §§ 44-1841 and 44-1991 of the Securities Act within the meaning of A.R.S.
10 § 44-1962(A)(2), by offering and selling unregistered securities and failing to disclose material facts
11 in connection with the sale of those securities.

12 b) Engaged in dishonest or unethical practices within the meaning of A.R.S. § 44-
13 1962(10) as defined by A.A.C. R14-4-130(A)(2), by representing that securities will be listed, or that
14 application for listing will be made on a securities exchange or the National Association of Securities
15 Dealers Automated Quotation (NASDAQ) system or other quotation system without reasonable
16 basis in fact for the representation.

17 c) Engaged in dishonest or unethical practices within the meaning of A.R.S. § 44-
18 1962(10) as defined by A.A.C. R14-4-130(A)(15), by borrowing money from a customer, who was
19 not a relative of DREOS or a person in the business of lending funds.

20 d) Engaged in dishonest or unethical practices within the meaning of A.R.S. § 44-
21 1962(10) as defined by A.A.C. R14-4-130(A)(17), by selling securities that were not recorded on the
22 records of AGSI, the dealer with whom he was registered at the time of the transactions.

23 **VIII.**

24 **REQUESTED RELIEF**

25 The Division requests that the Commission grant the following relief against
26 RESPONDENTS:

1 be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site
2 at www.cc.state.az.us/utility/forms/index.htm.

3 If a request for a hearing is timely made, the Commission shall schedule the hearing to begin
4 20 to 60 days from the receipt of the request unless otherwise provided by law, stipulated by the
5 parties, or ordered by the Commission. If a request for a hearing is not timely made, the Commission
6 may, without a hearing, enter an order against each RESPONDENT and RESPONDENT SPOUSE
7 granting the relief requested by the Division in this Notice of Opportunity for Hearing.

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

13 **X.**

14 **ANSWER REQUIREMENT**

15 Pursuant to A.A.C. R14-4-305, if any RESPONDENT or RESPONDENT SPOUSE
16 requests a hearing, such RESPONDENT or RESPONDENT SPOUSE must deliver or mail an
17 Answer to this Notice of Opportunity for Hearing to Docket Control, Arizona Corporation
18 Commission, 1200 W. Washington, Phoenix, Arizona 85007, within 30 calendar days after the
19 date of service of this Notice of Opportunity for Hearing. A Docket Control cover sheet must
20 accompany the Answer. A cover sheet form and instructions may be obtained from Docket
21 Control by calling (602) 542-3477 or on the Commission's Internet web site at
22 www.cc.state.az.us/utility/forms/index.htm.

23 Additionally, such RESPONDENT or RESPONDENT SPOUSE must serve the Answer
24 upon the Division. Pursuant to A.A.C. R14-4-303, service upon the Division may be made by
25 mailing or by hand-delivering a copy of the Answer to the Division at 1300 West Washington, 3rd
26 Floor, Phoenix, Arizona, 85007, addressed to Pamela Johnson.

1 The Answer shall contain an admission or denial of each allegation in this Notice and the
2 original signature of each RESPONDENT, RESPONDENT SPOUSE or
3 RESPONDENT/RESPONDENT SPOUSE's attorney. A statement of a lack of sufficient
4 knowledge or information shall be considered a denial of an allegation. An allegation not denied
5 shall be considered admitted.

6 When a RESPONDENT or RESPONDENT SPOUSE intends in good faith to deny only a
7 part or a qualification of an allegation, such RESPONDENT or RESPONDENT SPOUSE shall
8 specify that part or qualification of the allegation and shall admit the remainder. Each
9 RESPONDENT or RESPONDENT SPOUSE waives any affirmative defense not raised in the
10 answer.

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

13 Dated this 18 day of November, 2003.

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16 _____
17 Matthew J. Neubert
18 Acting Director of Securities
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Memorandum

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NEW

DATE: November 18, 2003

2003 NOV 18 P 3:01

TO: Nancy Cole
Docket ControlAZ CORP COMMISSION
DOCUMENT CONTROL**FROM:** Pam Johnson *JD*
Securities Division**RE:** International Global Positioning, Inc., et al.
Docket No. S-03523A-03-0000
Assigned Staff**CC:** LaShunda Duty

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

 Matthew Neubert LeRoy JohnsonPam Johnson (Staff Attorney)Frank Samprone (Staff Investigator)