



BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

RECEIVED

2002 DEC -5 P 1:43

DEC 05 2002

AZ CORP COMMISSION
DOCUMENT CONTROL

1 WILLIAM A. MUNDELL
2 Chairman
3 JIM IRVIN
4 Commissioner
5 MARC SPITZER
6 Commissioner

DOCKETED BY [Signature]

6	In the matter of:)	DOCKET NO. S-03508A-02-0000
7	GLOBAL TRUSTS, L.L.C.)	NOTICE OF OPPORTUNITY FOR HEARING REGARDING PROPOSED ORDER TO CEASE AND DESIST, FOR RESTITUTION, FOR ADMINISTRATIVE PENALTIES, AND FOR OTHER AFFIRMATIVE ACTION
8	8584 South Masthead Tucson, Arizona 85706)	
9	CLYDE F. WAGNON and MARTHA E.)	
10	WAGNON, husband and wife, 8584 South Masthead Tucson, Arizona 85706,)	
11)	
12	JERI WOODS and JOHN DOE WOODS,)	
13	wife and husband, 8584 South Masthead Tucson, Arizona 85706)	
14)	
15	Respondents.)	

16 **NOTICE: RESPONDENTS HAVE 10 DAYS TO REQUEST A HEARING (See VIII)**

17 **NOTICE: RESPONDENTS HAVE 30 DAYS TO FILE AN ANSWER (See IX)**

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

21 I.

22 JURISDICTION

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

25 ...

26 ...

1 to the purchaser, including choosing a site and installing the telephone, collecting all revenue from
2 the telephone's operation, repairing the telephone when necessary, and even repurchasing or
3 buying back the telephone at the investor's option. Under Level 4, Alpha would split the net
4 proceeds with the investor on a 70/30 basis, with Alpha retaining 70% and the investor receiving
5 30%. The price of the pay telephones was the same regardless of the service option chosen,
6 \$5,000.00 per telephone. Although investors were given a choice of using a company other than
7 Alpha to manage the phone, no known Arizona investor picked a company other than Alpha to
8 manage their phones. A "typical return" on each pay telephone was touted as 14% per year. In
9 practice, all purchasers received \$58.34 per month per pay telephone purchased, which amounted
10 to exactly 14% per annum.

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

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

20 15. RESPONDENTS, directly or indirectly, entered into agreements with Alpha, ATC,
21 and/or SPA, pursuant to which RESPONDENTS sold investment contracts involving Alpha pay
22 telephones (the "Alpha investment contracts") within or from the state of Arizona. All Alpha
23 investment contracts RESPONDENTS sold were Level 4 contracts.

24 16. RESPONDENTS told prospective investors their investments were insured. The
25 insurer named varied. Mentioned most often was the Northern and Western Insurance Company of
26 Grand Turk, Turks and Caicos Islands, British West Indies ("N&W"). Also mentioned were

1 Lloyd's of London and four other insurance companies listed as re-insurers. N&W was a captive
2 insurance company wholly owned by Rubera, the President and control person of Alpha, and
3 Robert S. Harrison of Richmond, Texas. N&W is not authorized to write insurance in Arizona.
4 On information and belief, N&W was not authorized to write insurance in any state in which the
5 Alpha pay telephones were located. In a letter dated August 15, 2001, Harrison stated: "There is
6 not now, nor was there ever any insurance coverage for Alpha Telcom, Inc."

7 17. RESPONDENTS presented Alpha to prospective customers as a stable, profitable,
8 and innovative company that had been in business since 1985. Alpha was said to be selling and
9 providing a "turn-key" operation.

10 18. On information and belief, sales agents were paid commissions from 12% to 19%
11 per telephone sold.

12 19. Pursuant to this commission schedule, RESPONDENTS sold Alpha investment
13 contracts involving at least 117 telephones to at least 9 individuals or entities within or from the state
14 of Arizona from November 17, 1999 through March 9, 2001, for a total sales amount of at least
15 \$585,000.

16 20. Alpha has a long regulatory history in which state securities regulators have found that
17 these purchases of pay telephones and accompanying service contracts were unregistered securities in
18 the form of investment contracts that were sold by unregistered persons and/or entities, and ordered
19 Alpha and those working with it to cease and desist. On information and belief, RESPONDENTS did
20 not reveal these orders to the majority of the investors with whom she dealt. The orders that
21 RESPONDENTS could have revealed include:

- 22 a. February 2, 1999, Cease and Desist Order issued by Pennsylvania Securities
23 Commission, *In the Matter of Alpha Telcom, Inc., et al.*, No. 9812-06.
- 24 b. November 17, 1999, Cease and Desist Order issued by North Carolina
25 Secretary of State, *In the Matter of the North Carolina Securities Division v.*
ATC, Inc., Paul Rubera, et al., No. 99-038-CC.
- 26 c. June 30, 1999, Temporary Order of Prohibition issued by Illinois Secretary
of State, *In the Matter of Alpha Telcom, Inc.*, No. 9900201.

- d. January 14, 2000, Consent Order of Prohibition issued by Illinois Secretary of State, *In the Matter of Alpha Telcom, Inc.*, No. 9900201, in which Alpha agreed to offer rescission to all Illinois purchasers.
- e. November 24, 1999, Cease and Desist Order issued by Wisconsin Department of Financial Institutions, *In the Matter of Alpha Telcom, Inc. and Paul S. Rubera, et al.*, No. S-99225(EX).
- f. March 7, 2000, Temporary Cease and Desist Order issued by Rhode Island Department of Business Regulation, *In the Matter of Alpha Telcom, Inc. and ATC, Inc.*
- g. July 18, 2000, Florida Department of Banking and Finance filed 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.

21. Among actions that have proceeded most recently against Alpha are the following:

- a. July 26, 2001, Cease and Desist Order issued by Ohio Commissioner of Securities;
- b. August 27, 2001, Temporary Restraining Order issued by United States District Court, District of Oregon, *SEC v. Alpha Telcom, Inc., et al.*, No. CV 01-1283 PA
- c. September 5, 2001, Cease and Desist Order issued by Arkansas Securities Department, *In the Matter of Alpha Telcom, Inc., et al.*, No. 01-36-S.
- d. September 6, 2001, Preliminary Injunction issued by United States District Court, District of Oregon, *SEC v. Alpha Telcom, Inc., et al.*, No. CV 01-1283 PA.
- e. February 7, 2002, Final Judgment of Permanent Injunction issued by United States District Court, District of Oregon, *SEC v. Alpha Telcom, Inc., et al.*, No. CV 01-1283 PA.
- 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.

The SEC's Complaint in the United States District Court, District of Oregon, alleged that Alpha and its affiliates engaged in a Ponzi-like scheme that never generated enough income to pay expenses, and that the money paid to existing investors always came from sales to new investors. Several days before the Temporary Restraining Order was issued on August 27, 2001, Alpha

1 sought bankruptcy protection in Florida pursuant to chapter 11 of the Bankruptcy Code. A court-
2 appointed receiver subsequently took over the remaining operations of Alpha. Alpha consented
3 on October 19, 2001 to entry of the Final Judgment of Permanent Injunction against it, but did
4 not admit the allegations of the Complaint. On February 7, 2002, the United States District Court
5 for the District of Oregon filed its final opinion in connection with the trial of Rubera. In that
6 opinion, the court verified that the Alpha investment contracts are securities subject to regulation,
7 and that Alpha operated a Ponzi-type scheme in connection with sales of the Alpha investment
8 contracts.

9 22. Alpha's monthly payments to investors ceased prior to August, 2001.

10 **IV.**

11 **VIOLATION OF A.R.S. § 44-1841**

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

13 23. From on or about November 17, 1999, RESPONDENTS offered or sold securities in
14 the form of investment contracts in Alpha, within or from Arizona.

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

17 25. This conduct violates A.R.S. § 44-1841.

18 **V.**

19 **VIOLATION OF A.R.S. § 44-1842**

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

21 26. RESPONDENTS offered or sold securities within or from Arizona while not
22 registered as dealers or salespersons pursuant to Article 9 of the Securities Act.

23 27. This conduct violates A.R.S. § 44-1842.

24 ...

25 ...

26 ...

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

VI.

VIOLATION OF A.R.S. § 44-1991

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

28. 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; 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) RESPONDENTS failed to advise purchasers of the state regulatory actions against Alpha and of the potential consequences of those orders with respect to their investment;
- b) RESPONDENTS represented to purchasers that their investment and/or the pay telephones they purchased from Alpha were fully insured, when they were not, in fact, insured by any insurance company authorized to provide insurance in Arizona or in any state in which the pay telephones were located;
- c) RESPONDENTS represented to purchasers that monies they would receive as a result of their investment in Alpha were derived from profits on pay telephones, when in fact the returns paid to investors came from purchases by subsequent investors.

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

VII.

REQUESTED RELIEF

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

1 may, without a hearing, enter an order against each RESPONDENT granting the relief requested by
2 the Division in this Notice of Opportunity for Hearing.

3 Persons with a disability may request a reasonable accommodation such as a sign language
4 interpreter, as well as request this document in an alternative format, by contacting Shelly M.
5 Hood, Executive Assistant to the Executive Secretary, voice phone number 602/542-3931, e-mail
6 shood@cc.state.az.us. Requests should be made as early as possible to allow time to arrange the
7 accommodation.

8 IX.

9 ANSWER REQUIREMENT

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

17 Additionally, RESPONDENT must serve the Answer upon the Division. Pursuant to
18 A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-delivering a
19 copy of the Answer to the Division at 1300 West Washington, 3rd Floor, Phoenix, Arizona, 85007,
20 addressed to Kathleen Coughenour DeLaRosa.

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

