

BEFORE THE ARIZONA CORPORATION COMMISSION

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CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF:

WILLIAM BOYD GREGORY
350 N. 1st Ave., #510
Phoenix, Arizona 85003

IRMA DELORES SANCHEZ
711 S. 9th Place
Phoenix, Arizona 85034

EYE INTERNATIONAL, L.L.C.
711 S. 9th Place
Phoenix, Arizona 85034

AMERICAN INTERNATIONAL BENEFICIAL
ASSOCIATION, INC.
7137 S. 7th Place
Phoenix, Arizona 85040

Respondents.

DOCKET NO. S-03285A-99-0000

DECISION NO. 63156

OPINION AND ORDER

DATE OF HEARING: September 16, 1999
PLACE OF HEARING: Phoenix, Arizona
PRESIDING ADMINISTRATIVE LAW JUDGE: Barbara M. Behun¹
APPEARANCES: Mr. William Boyd Gregory, in propria persona;
Ms. Irma Delores Sanchez, in propria persona;
and
Ms. Wendy L. Coy, Special Assistant Attorney
General, and Ms. Mora A. McCarthy, Assistant
Attorney General on behalf of the Securities
Division of the Arizona Corporation
Commission.

BY THE COMMISSION:

On June 1, 1999, the Securities Division ("Division") of the Arizona Corporation

¹ This Recommended Opinion and Order was prepared by Administrative Law Judge Marc E. Stern upon review of the testimony and exhibits admitted into evidence in the proceeding.

1 Commission ("Commission") filed a Notice of Opportunity for Hearing Regarding Proposed Order
 2 for Relief ("Notice") against Mr. William Boyd Gregory, Ms. Irma Delores Sanchez, Eye
 3 International, L.L.C. ("Eye"), and American International Beneficial Association, Inc. ("AIBA")
 4 (collectively, "Respondents") in which the Division alleged multiple violations of the Arizona
 5 Securities Act ("Act") in connection with the offer and sale of investments involving promissory
 6 notes and evidences of indebtedness.

7 All named Respondents in the above-captioned proceeding were duly served with copies of
 8 the Notice to which timely requests for hearing were filed by or on behalf of the Respondents.

9 On July 27, 1999, by Procedural Order, the above-captioned matter was set for hearing on
 10 August 19, 1999.

11 On August 9, 1999, the Respondents telephonically requested a continuance in order to retain
 12 counsel. The Division did not oppose this request.

13 On August 10, 1999, the Commission, by Procedural Order, continued the hearing from
 14 August 19, 1999 to September 16, 1999.

15 On September 16, 1999, a full public hearing was convened before a duly authorized
 16 Administrative Law Judge of the Commission at its offices in Phoenix, Arizona. Mr. Gregory and
 17 Ms. Sanchez appeared on their own behalf. The Division appeared with counsel. Testimony was
 18 taken and a number of exhibits were admitted into evidence during the course of the proceeding.
 19 Following the conclusion of the hearing, the matter was taken under advisement pending submission
 20 of a Recommended Opinion and Order to the Commission.

21 * * * * *

22 Having considered the entire record herein and being fully advised in the premises, the
 23 Commission finds, concludes, and orders that:

24 **FINDINGS OF FACT**

25 1. Mr. Gregory, whose last known address is 340 N. 1st Avenue, Phoenix, Arizona 85003
 26 was, at all relevant times, engaged in the operation of two Delaware corporations known as Eye and
 27 AIBA.

28 2. Ms. Sanchez, whose last known address is 711 S. 9th Place, Phoenix, Arizona 85034,

1 was, at all relevant times, engaged in the operation of Eye with Mr. Gregory.

2 3. Eye was a Delaware corporation whose last known business address was 711 S. 9th
3 Place, Phoenix, Arizona 85034.

4 4. AIBA was a Delaware corporation, whose last known address was 7137 S. 7th Place,
5 Phoenix, Arizona 85040, whose main principal was Mr. Gregory. However, there was another
6 principal in AIBA, Mr. Arnold Rosas, who was not named as a Respondent in this proceeding.

7 5. The record established that neither AIBA, Eye, Mr. Gregory nor Ms. Sanchez were
8 registered in Arizona as either securities dealers or salesmen.

9 6. On June 1, 1999, the Division issued the Notice alleging violations of A.R.S. § 44-
10 1841, 44-1842 and 44-1991 against the above-named Respondents.²

11 7. The investment program offered and sold by the Respondents involved offerings by
12 AIBA and Eye of promissory notes which were purportedly secured by Series 1913 Chinese
13 Government Reorganisation (sic) Bonds ("Chinese Bonds") as collateral or security for the
14 investment if the promissory note was not repaid.

15 8. The Respondents represented that the Chinese Bonds were to provide security for an
16 investment and were touted as being worth between \$3,000,000 and \$5,000,000.

17 9. Beginning in the fall of 1997, AIBA and Mr. Gregory began the offer of the AIBA
18 notes to prospective investors.

19 10. In late September or early October 1997, a retired truck driver, Mr. Joe Dean, testified
20 that he was introduced to Mr. Gregory by his friend, Mr. Rosas, who offered him an opportunity to
21 invest in the AIBA offering. Although Mr. Dean was told that he would receive a large return on his
22 investment within two months of investing, he received absolutely nothing.

23 11. Prior to Mr. Dean's AIBA investment, he had little investing experience and AIBA
24 and Mr. Gregory failed to provide him with any written documentation about the so-called
25 investment opportunity prior to his investing with AIBA.

26 12. At the time of Mr. Dean's investment, he was presented with copies of some highly
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28 ² At the outset of the proceeding, Mr. Gregory indicated that both Eye and AIBA were defunct corporations and had not been in existence for over a year.

1 questionable documents that would lead an unsophisticated investor to believe that he was becoming
2 involved in a lucrative investment opportunity.

3 13. Mr. Gregory furnished Mr. Dean with a copy of a Chinese Bond which had a
4 registration number (382639) on it which coincided with a letter he was shown dated September 19,
5 1997 addressed to Mr. Gregory and Mr. Rosas from an individual in Las Vegas, Nevada. The letter
6 references the value of this bond as \$3,187,499.70 and states that it can be used "in trading
7 exchanges" and "that the valuation stated is fairly represented."

8 14. On or about October 7, 1997, Mr. Dean withdrew \$5,000 from his savings account
9 with the Bank of America and invested the funds in AIBA and in return he received a "negotiable
10 promissory note" from AIBA signed by Mr. Rosas and Mr. Gregory as "trustee". According to the
11 terms of the note, Mr. Dean was buying a one percent share of the capital stock of AIBA and on its
12 face the note stated that it was secured by one Chinese Bond. The wording on the note represented
13 that the note would be replaced by the income stream generated by the bond when "placed in a bank
14 role program with European banks. This income should be in the amount of \$100,000 a month for 12
15 months for a total payout of over \$1.2 million dollars . . . this money will be given to the investor or
16 there (sic) assignee."

17 15. There was also evidence presented that on or about October 20, 1997, Mr. Dean
18 executed what was termed an "addendum page" whereby he assigned his purported "income stream
19 off the Chinese government bond" to his four children in equal shares of 25 percent.

20 16. During the hearing, Mr. Dean identified a "payment schedule update" signed by Mr.
21 Gregory as the Chairman of AIBA and Mr. Rosas that was sent to Mr. Dean in the form of a
22 confidential memorandum which indicated that "all of our investors will be paid the agreed upon
23 investment returns . . .", but went on to state that due to an apparent valuation problem, the Chinese
24 Bonds had dropped in value. According to the memorandum, investors were to receive their first
25 payments by mid-March and were wished a "wonderful, healthy, and happy holiday".

26 17. Subsequently, on or about June 25, 1998, Mr. Dean borrowed \$500 from his son and
27 wrote a personal check to AIBA in the amount of \$500 with the memo notation that it was for a loan
28 "as per Arnold Rosas and William Gregory".

1 18. Mr. Dean testified that he was told that, in order to receive his return on his
2 investment, the additional \$500 was needed for what he believed were Mr. Gregory's personal
3 expenses.

4 19. At no time was any information gathered from Mr. Dean with respect to his financial
5 background, his income, or his ability to withstand a financial loss prior to his investment in AIBA.

6 20. Although the record also established that Mr. Gregory had previously been convicted
7 of felony offenses in Arizona involving theft and the conduct of an illegal enterprise, Mr. Gregory did
8 not inform Mr. Dean prior to his investment of his past criminal history and three and one-half year
9 prison sentence and five year probation term.

10 21. Mr. Dean testified further that he believed that, two months after his initial investment,
11 on or about December 16, 1997, he would receive a return of \$1.2 million dollars. Subsequently, he
12 was told he would receive 12 monthly installments of \$100,000 for his \$5,000 investment.

13 22. On or about April 30, 1998, Ms. Meg Pollard, an undercover Division investigator,
14 contacted Mr. Gregory to schedule a meeting with him after telling him that she was an acquaintance
15 of Mr. Dean's and that she was interested in making an investment.

16 23. Several days later, on May 4, 1998, Ms. Pollard, and another Division investigator,
17 Mr. Mike Smedminghoff, met Mr. Gregory and Ms. Sanchez at a JB's Restaurant at 51st Avenue and
18 Bell Road in Phoenix to discuss investment opportunities.

19 24. At their meeting Mr. Gregory provided Ms. Pollard with a color copy of a Chinese
20 Bond which had a registration number (245257) and which Mr. Gregory represented was worth \$4.5
21 million dollars.

22 25. At this meeting with the undercover Division investigators, Mr. Gregory claimed that
23 he owned a number of Chinese Bonds similar to the one he showed Ms. Pollard and that he and his
24 associate had deposited 33 of these bonds worth approximately \$200 million dollars while they were
25 "evaluated".

26 26. Mr. Gregory stated that the bonds had been deposited with an organization known as
27 Fidelity Secured Deposit Corporation ("FSDC") in California and that FSDC in return had provided
28 documents purportedly confirming their ownership, authenticity and purported value.

1 27. Going on to describe the offering, Mr. Gregory stated that if an investor gave him
2 \$2000, the investor would receive \$10,000 in 60 days. He went on to state that these were short-term
3 investments with high interest rates. Mr. Gregory represented that, as a minimum return, he would
4 earn over \$1,000,000 per bond in one year.

5 28. Mr. Gregory described to Ms. Pollard and Mr. Smeddinghoff that, in return for a
6 \$2000 investment, they would receive a contract signed by both officers of Eye (Mr. Gregory and
7 Ms. Sanchez) which would state that Eye would pay the investor \$10,000.

8 29. Ms. Pollard described a copy of an Eye "Negotiable Promissory Note" which Mr.
9 Gregory gave her at their meeting which stated "Eye International, L.L.C. will for the consideration
10 of 2k will pay to the investor the income of 10 thousand dollars payable to the investor and or their
11 assigns. Payable in one lump sum by mid-June 1998."

12 30. At the bottom of the Eye note was an inscription which stated as follows: "This note is
13 secured by one Chinese Bond held in trust for Eye International at Fidelity Secured Deposit
14 Corporation." The note also showed an address for Eye at 711 S. 9th Place, Phoenix, Arizona 85034.
15 the same address as that of Ms. Sanchez.

16 31. Although Mr. Gregory and Ms. Sanchez did not have all of the documentation
17 necessary to complete sale of the Eye note to the Division's investigators at the May 4, 1998 meeting,
18 they indicated that they could do so later in the day after their initial meeting was concluded at JB's.

19 32. During the May 4, 1998, meeting between the Division's investigators and Mr.
20 Gregory and Ms. Sanchez, they referred to a "roll program" which Mr. Gregory represented as
21 paying 100 percent interest a month.

22 33. During the discussion, Mr. Gregory stated that an investment in an Eye note would
23 involve only a slight risk and that they would not have to take an active part in the management of the
24 investment.

25 34. According to Mr. Gregory, he was not required to be licensed as a dealer because he
26 was selling a private offering which was not advertised and had less than 20 investors.

27 35. At no time did either Mr. Gregory or Ms. Sanchez inquire as to the investigators' net
28 worth, their annual income, or their to ability to sustain a loss.

1 36. During the Respondents' conversation with the undercover investigators, on more than
2 one occasion, Mr. Gregory claimed that he was a millionaire and that he had taught at the University
3 of Arizona Medical School.

4 37. However, an inquiry from the Division to the University of Arizona was met with
5 denials that Mr. Gregory had ever been employed there.

6 38. Subsequently, on May 5, 1998, Ms. Pollard met Mr. Gregory for about 10 minutes at
7 the Veteran's Memorial Coliseum parking lot to discuss a possible investment in Eye and to pick up
8 additional documents concerning the investment.

9 39. Although Ms. Sanchez drove Mr. Gregory to the meeting, she did not participate in the
10 conversation and remained in her vehicle.

11 40. At that time, Mr. Gregory gave Ms. Pollard three sample Eye notes, one for a \$2,000
12 investment to return \$10,000, one for a \$5,000 investment to return \$25,000 and one for a \$10,000
13 investment to return \$50,000.

14 41. When Ms. Pollard questioned the value of a Chinese Bond, Mr. Gregory failed to
15 provide any sort of credible response concerning its value.

16 42. During the May 5, 1998 meeting with Mr. Gregory, Ms. Pollard was provided with
17 copies of documents from FSDC which on their face confirmed that Eye, Ms. Sanchez, Mr. Gregory
18 and a third individual had deposited 33 of the Chinese Bonds with FSDC for purposes of
19 authentication, valuation and safe keeping. The FSDC deposit receipt was dated January 16, 1998,
20 and at or about this time, FSDC valued each Chinese Bond at \$5,450,000.

21 43. On March 9, 1998, the Securities Exchange Commission ("SEC") began an
22 enforcement action in the United States District Court for the Central District of California against
23 FSDC and its president, Mr. Gerald A. Dobbins. As a result, on May 19, 1998, a preliminary
24 injunction was issued against Mr. Dobbins and FSDC enjoining their fraudulent activities with
25 respect to the SEC's allegations that Mr. Dobbins and FSDC had misrepresented to investors
26 nationwide the values of certain bonds in connection with the offer and sale of securities. However, at
27 no time did Mr. Gregory reveal the SEC action to the Division investigators.

28 44. During the course of its investigation, the Division contacted R.M. Smythe and Co.,

1 Inc. ("RMS"), a New York company engaged in researching, auctioning, buying and selling historic
2 paper collections,³ and requested that RMS investigate the Chinese Bonds.

3 45. On August, 6, 1998, RMS reported to the Division that the Chinese Bonds numbered
4 No. 382639 and 245257, the two bonds copied and provided to Mr. Dean and the Division's
5 investigators, were essentially valueless stating "since the issuing nation of the Reorganisation (sic)
6 Loan of 1913 is no longer in existence and the current People's Republic of China denies the validity
7 of any prior bonded debt, we consider this issue to be worthless as a security. In our opinion no value
8 attaches to this holding."

9 46. The research specialist for RMS went on to state that these bonds were relatively
10 common and that over 795,000 had been issued, had not been redeemed and were worth only a
11 nominal sum indicating that in its last catalog RMS sold similar bonds for \$45.00 each.

12 47. During the hearing, Mr. Gregory acknowledged that he did not inform the Division's
13 investigators that his offering had failed to pay a return to Mr. Dean on his investment.

14 48. Although Mr. Gregory had told the investigators that he had 13 investors in his
15 program, upon further examination, he later revealed that Mr. Dean was the only investor.

16 49. With respect to the offer and sale of the notes offered by AIBA, Eye, Mr. Gregory and
17 Ms. Sanchez:

- 18 • Respondents misrepresented the return promised to investors and offerees;
- 19 • Respondents misrepresented the value of the security offered by the Chinese Bonds
20 when they claimed that they were each worth millions of dollars when, in fact, they
21 were worth only approximately \$45.00;
- 22 • Respondents failed to reveal Mr. Gregory's prior criminal convictions;
- 23 • Respondents misrepresented Mr. Gregory's educational background and past
24 employment history at the University of Arizona;
- 25 • Respondents failed to inquire as to a prospective investor's educational and investing
26 background in order to determine whether the proposed investment was suitable for

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28 ³ The collection of financial historical documents such as stock certificates and bonds are part of a rapidly growing hobby known as Scripophily.

1 the investor; and

- 2 • Respondents failed to disclose the nature of the risks involved in the offering of their
3 securities.

4 50. The record does not establish that either the AIBA offering or the Eye offering were
5 valid private offerings or exempt from registration.

6 51. Under the circumstances herein, and based on the weight of the evidence, the record
7 establishes that Mr. Gregory was the primary promoter of the AIBA and Eye offerings. Therefore,
8 we believe that Mr. Gregory and AIBA should be jointly and severally liable for the restitution owed
9 to Mr. Dean since there is no evidence that Ms. Sanchez and Eye were involved in that offering.

10 52. With respect to the Division's request for an administrative penalty in the amount of
11 \$30,000 being assessed jointly and severally against AIBA, Eye, Mr. Gregory and Ms. Sanchez,
12 again we believe that the primary liability with respect to these offerings should be absorbed by Mr.
13 Gregory along with AIBA and Eye as ordered hereinafter.

14 53. With respect to Ms. Sanchez, since there is no evidence that she was involved in the
15 AIBA offering, and her involvement in the Eye Offering was minimal, we believe that she should be
16 liable for a lesser administrative penalty than Mr. Gregory, AIBA and Eye as ordered hereinafter.

17 **CONCLUSIONS OF LAW**

18 1. The Commission has jurisdiction over this matter pursuant to Article XV of the
19 Arizona Constitution and A.R.S. §§ 44-1801, et. seq.

20 2. The AIBA promissory notes offered and sold by Mr. Gregory were securities within
21 the meaning of A.R.S. § 44-1801(26).

22 3. The Eye promissory notes offered by Mr. Gregory and Ms. Sanchez were securities
23 within the meaning of A.R.S. § 44-1801(26).

24 4. The securities were neither registered nor exempt from registration, in violation of
25 A.R.S. § 44-1841.

26 5. The actions and conduct of the Respondents, AIBA, Eye, Mr. Gregory and Ms.
27 Sanchez constitute the offer and/or sale of securities within the meaning of A.R.S. §§ 44-1801(15)
28 and 44-1801(21).

1 A.R.S. § 44-2036, Respondents, American International Beneficial Association, Inc., Eye
2 International, L.L.C., Mr. William Boyd Gregory and Ms. Irma Delores Sanchez shall pay as and for
3 an administrative penalty: for the violation of A.R.S. § 44-1841 American International Beneficial
4 Association, Inc., Eye International L.L.C., and Mr. Gregory the sum of \$5,000, Ms. Sanchez the sum
5 of \$500; for the violation of A.R.S. § 44-1842 American International Beneficial Association, Inc.,
6 Eye International L.L.C., and Mr. Gregory the sum of \$5,000, Ms. Sanchez the sum of \$500; and for
7 the violation of A.R.S. § 44-1991 American International Beneficial Association, Inc., Eye
8 International, L.L.C., and Mr. Gregory the sum of \$10,000, Ms. Sanchez the sum of \$1,000.

9 IT IS FURTHER ORDERED that the administrative penalties ordered hereinabove shall be
10 made payable to the State Treasurer for deposit in the General Fund for the State of Arizona.

11 IT IS FURTHER ORDERED that the administrative penalties ordered hereinabove shall bear
12 interest at the rate of 10 percent per year for any outstanding balances after 60 days from the date of
13 this Decision.

14 IT IS FURTHER ORDERED that the administrative penalties assessed against American
15 International Beneficial Association, Inc., Eye International, L.L.C., and Mr. William Boyd Gregory
16 shall be reduced to \$2,000 per statutory violation with respect to Mr. Gregory if restitution is made in
17 accordance with the terms with this Decision hereinafter.

18 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under
19 A.R.S. § 44-2032, Respondents American International Beneficial Association, Inc., and Mr. William
20 Boyd Gregory jointly and severally shall make restitution in an amount not to exceed \$5,500 together
21 with any lawful interest due thereon subject to any legal set-offs and confirmed by the Director of
22 Securities, said restitution to be made within 60 days from the effective date of this Decision.

23 IT IS FURTHER ORDERED that the restitution ordered hereinabove shall bear interest at the
24 rate of 10 percent per year for a period from the date of investment to the date of payment of
25 restitution by Respondents.

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1 IT IS FURTHER ORDERED that all restitution payments ordered hereinabove shall be
2 deposited into an interest bearing account(s), if appropriate, until distribution is made.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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CHAIRMAN

COMMISSIONER

COMMISSIONER

10 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
11 Secretary of the Arizona Corporation Commission, have
12 hereunto set my hand and caused the official seal of the
13 Commission to be affixed at the Capitol, in the City of Phoenix,
14 this 16th day of November, 2000.

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16 BRIAN C. McNEIL
17 EXECUTIVE SECRETARY

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DISSENT _____
MES:dap

1 SERVICE LIST FOR: WILLIAM BOYD GREGORY, IRMA DELORES
2 SANCHEZ, EYE INTERNATIONAL, L.L.C., and
3 AMERICAN INTERNATIONAL BENEFICIAL
ASSOCIATION, INC.

4 DOCKET NO. S-03285A-00-0000

5 WILLIAM BOYD GREGORY
6 350 N. 1st Ave., #510
Phoenix, Arizona 85003

7 IRMA DELORES SANCHEZ
8 711 S. 9th Place
Phoenix, Arizona 85034

9 EYE INTERNATIONAL, L.L.C.
10 711 S. 9th Place
Phoenix, Arizona 85034

11 AMERICAN INTERNATIONAL BENEFICIAL ASSOCIATION, INC.
12 7137 N. 7th Place
Phoenix, Arizona 85040

13 Robert A. Zumoff
14 Assistant Attorney General
ARIZONA ATTORNEY GENERAL'S OFFICE
15 1275 W. Washington Street
Phoenix, Arizona 85007

16 W. Mark Sendrow
17 Securities Division
ARIZONA CORPORATION COMMISSION
18 1300 W. Washington Street
Phoenix, Arizona

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