

STATE OF ARKANSAS
SECURITIES DEPARTMENT

IN THE MATTER OF
SEED INTERNATIONAL, LTD.,
OCEAN INTERNATIONAL MARKETING, LTD.,
ARCHITECTS OF WINE, LTD., CRAIG GARRETT,
CARL SNAPE, RYAN FERREIRA,
JASON SCHMIDT, CHRIS ELS and ALL PERSONS
EMPLOYED BY OR OTHERWISE
AFFILIATED WITH THOSE ENTITIES
OR THOSE PERSONS

No S-04-008-04-CD01

CEASE AND DESIST ORDER

The Staff of the Arkansas Securities Department (the Staff) has received information and has in its possession certain evidence which indicates that SEED INTERNATIONAL, LTD., OCEAN INTERNATIONAL MARKETING, LTD., ARCHITECTS OF WINE, LTD., CRAIG GARRETT, CARL SNAPE, RYAN FERREIRA, JADON SCHMIDT and CHRIS ELS have violated provisions of the Arkansas Securities Act (the Act), codified at Ark. Code Ann. §§ 23-42-101, *et seq.* (Repl. 2000).

FINDINGS OF FACT

1. Seed International, Ltd. (Seed) is a foreign business entity whose primary office address is Buckinghamshire House, 174 South Church Street, Post Office Box 1778, GT Grand Cayman, Cayman Islands, BWI. Seed was formerly known as Churchill Associates (Churchill), whose primary office was at the same address. The name change to Seed was announced in June, 2000.
2. Ocean International Marketing, Ltd. (Ocean) is a foreign business entity whose primary

office address is De Leuve, Schiedamsedijk 42, 3011 ED Rotterdam, The Netherlands.

Ocean was formerly known as Heros Global Marketing, Ltd. (Heros), whose primary office was at the same address. The name change to Ocean was announced in June, 2000.

3. Architects of Wine, Ltd. (Architects) is a foreign business entity whose primary address is Caledonian House, 69 Dr. Roy's Drive, P.O. Box 1043, GT Georgetown, Grand Cayman, Cayman Islands, BWI.
4. Craig Garrett (Garrett) was an employee or affiliate of Heros who facilitated sales.
5. Carl Snape (Snape) was an employee or affiliate of Heros and later of Ocean who facilitated sales.
6. Ryan Ferreira (Ferreira) was an employee or affiliate of Ocean and later Architects who facilitated sales.
7. Jadon Schmidt (Schmidt) was an employee or affiliate of Heros and later of Ocean who facilitated sales.
8. Chris Els (Els) was an employee or affiliate of Ocean and later Architects who facilitated sales.
9. From 1997 until late 2002, wine programs being offered by Churchill, which became Seed, were marketed by Heros, which became Ocean. Typical of the information contained in written sales materials used to market these program was the following:

Our independent team of specialists and financial analysts make it possible for our clients to acquire wine assessed as having the potential to increase in value. An added bonus is that each client's collection portfolio is managed on their behalf by Seed International.

The Company's network of wine experts operates globally to identify stock worthy of collection. Authenticity and marketability is thoroughly evaluated

before Seed International judges it worthy of any client's attention. By this reliable route, Seed International is able to recommend purchases at levels below actual market value, and provide resale potential for the client.

Against this market backdrop, Seed has identified an opportunity for its clients to benefit from cost advantages of controlled supply, exclusive ownership and distribution management. Seed's third-party and strategic relationships are attempting to take advantage of this inefficient supply and distribution chain.

* * *

[Seed's services to members were said to have included:] [S]ourcing collectables and negotiating their purchase from third parties at below market prices; acting as an agent for each successive purchaser; managing the collection portfolio for each individual Member; and acting on behalf of each member in admitting and inviting new Members into the Programme.

10. In late 2002, Seed announced that the supplier of a number of Italian wines, Paradigm Wine Services Limited, no longer wanted to operate through Seed and Ocean, but instead wanted to market its wines directly to Seed's and Ocean's investors through its trading company, Architects. Architects continued issuing and marketing the same programs as Seed and Ocean had issued and marketed.

11. Garrett, Snape and Ferreira, working as agents of Heros, Ocean and Architects, offered and sold investments in wine programs noted in ¶¶ 9 and 10, above, to one Arkansas resident from September, 1999, through August, 2002. In all, this Arkansas resident invested approximately \$324,063.00.

12. Schmidt and Els, working as agents of Heros, Ocean and Architects, offered and sold investments in wine programs noted in ¶¶ 9 and 10, above, to another Arkansas resident from 1997 through October, 2003. In all, this Arkansas resident invested approximately \$263,000.00.

13. Heros, Seed and Ocean all have a long regulatory history in which several state securities regulators have found that these investments were unregistered securities in the form of investment contracts that were sold by unregistered persons and/or entities and ordered Heros, Seed, Ocean and those working with or for them to cease and desist. None of these orders were revealed to the Arkansas resident investors referred to in ¶¶ 11 and 12, above.

These orders are as follows:

- a. *In the Matter of Heros Global Marketing Services B.V., et al.*, No. S-97047(EX); Summary Order of Prohibition; Wisconsin Department of Financial Institutions, Division of Securities; issued on 2 February 1998; wine programs found to be investment contracts, which were unregistered securities being sold by unregistered individuals and entities.
- b. *In the Matter of Heros global Marketing Services B.V., Daniel Bartlett and Churchill Associates Ltd.*; Cease and Desist Order; Iowa Division of Insurance, Superintendent of Securities; issued on 16 August 2000; wine programs found to be investment contracts, which were unregistered securities being sold by unregistered individuals and entities.
- c. *In the Matter of Ocean International Marketing, Ltd., and Seed International, Ltd.*, No. C03-06-504; Cease and Desist Order; Iowa Division of Insurance, Superintendent of Securities; issued on 11 July 2003; wine programs found to be investment contracts, which were unregistered securities being sold by unregistered individuals and entities; Ocean and Seed found to have been in violation of previous order against them when known as Heros and Churchill, respectively.
- d. *In the Matter of Seed International, Limited; Ocean International Marketing; et al.*; North Dakota Securities Commissioner; Cease and Desist Order; issued 19 March 2003; wine programs found to be investment contracts, which were unregistered securities being sold by unregistered individuals and entities.
- e. *In the Matter of Ocean International Marketing, Ltd., Heros global Marketing, Ltd., Seed International, Ltd., GFH International, George and Jane Doe Ioannou and Ryan and Jane Doe Ferreira*, No S-03526A-03-0000; Default Order to Cease and Desist, Order for Restitution and Order for Administrative Penalties; Arizona Corporation Commission; temporary cease and desist order issued on 15 April 2003, permanent order issued on 14 October 2003; wine programs found to be investment contracts, which were unregistered securities being sold by unregistered individuals and entities, and fraud by omission and commission was found.

- f. *In the Matter of Ocean International Marketing, Ltd.; Seed International, Ltd.*, No. 2002E052; Kansas Securities Commissioner; Notice of Intent to Issue Permanent Cease and Desist Order issued on 13 May 2003; Permanent Cease and Desist Order issued on 6 November 2003; wine programs found to be investment contracts, which were unregistered securities being sold by unregistered individuals and entities.
- g. *In the Matter of Seed International, Ltd., and Ocean International Marketing, Ltd.*, No. S-03-0132; Mississippi Secretary of State, Business Regulation and Enforcement Division; Summary Cease and Desist Order issued on 27 June 2003; Final Cease and Desist Order issued on 29 October 2003.

14. A search of the records of the Arkansas Securities Department (the Department) shows no registration, proof of exemption or notice filing for a security classified as a covered security under federal law for the wine programs offered and sold by the respondents.
15. A search of the records of the Department shows that none of the respondents is or has been registered with it in any capacity.

CONCLUSIONS OF LAW

16. Ark. Code Ann. § 23-42-102(15)(A)(xi) (Supp. 2003) defines security as an investment contract.
17. Ark. Code Ann. § 23-42-501 (Repl. 1994) provides that it is unlawful for any person to offer or sell any security which is not registered or which is not exempt from registration under the terms of the Act.
18. Ark. Code Ann. § 23-42-102(9) (Supp. 1999) defines issuer as any person, which is defined in Ark. Code Ann. § 23-42-102(11) (Supp. 1999) to include an individual (natural person), corporation, limited liability company or association, who issues or proposes to issue any security.

19. Ark. Code Ann. § 23-42-102(2) (Repl. 2000) defines broker-dealer as any person engaged in the business of effecting transactions in securities for the account of others.
20. Ark. Code Ann. § 23-42-301(a) (Repl. 1994) prohibits as unlawful the transaction of business as a broker-dealer or agent by any person who is not registered with the Arkansas Securities Department as such.
21. Ark. Code Ann. § 23-42-102(2)(A) (Supp. 1999) defines agent as, *inter alia*, an individual representing the issuer of securities or a broker-dealer and effecting or attempting to effect purchases or sales of those securities.
22. Ark. Code Ann. § 23-42-507(2) (Repl. 2000) provides that it is unlawful for any person in connection with the offer or sale of any security to make any untrue statement or omit to state a material fact necessary in order to make the statements made not misleading in light of the circumstances under which they are made.

OPINION

23. As set out in ¶¶ 9 and 10, above, the following can be gleaned about the wine programs issued by Seed, f/k/a Churchill, and marketed by Ocean, f/k/a Heros and later issued and sold by Architects, to wit: 1) the investors would and could play only a passive role and not be involved in the day-to-day operations of the enterprise into which they had invested; 2) the investors had no expertise or experience in buying and selling wines and were dependent on Seed and Architects to manage and operate the business; and 3) because there was no limit on the number of investors worldwide, there were too many investors for any individual investors to have any meaningful input into the management of these investments. The

investors were clearly involved in a common enterprise with the expectation of profits to be produced only from the managerial efforts of others. Therefore, under established legal precedent the wine programs described in ¶¶ 9 and 10, above, and sold to the Arkansas residents mentioned in ¶¶ 11 and 12, above, are investment contracts and therefore securities as defined at Ark. Code Ann. § 23-42-102(15)(A)(xi) (Supp. 2003).

24. Seed, f/k/a Churchill, and Architects, because they produced the wine programs sold here, were issuers as per the definition of the term, issuer, contained in Ark. Code Ann. § 23-42-102(9) (Supp. 2003).
25. Ocean, f/k/a Heros, attempting to effect transactions in securities in the account of others, acted as a broker-dealer in this transaction as defined at Ark. Code Ann. § 23-42-102(2) (Repl. 2000) without being registered with the Department, as required by Ark. Code Ann. § 23-42-301(a) (Repl. 2000).
26. Garrett, Snape, Ferreira, Schmidt and Els acting as agents of Heros, Ocean and/or Architects acted as agents of a broker-dealer and/or an issuer without being registered with the Department in violation of Ark. Code Ann. § 23-42-301(a) (Repl. 2000).
27. All the respondents offered to sell these investment contracts either through agents, or as agents without prior registration of the investment contracts in violation of Ark. Code Ann. § 23-42-501 (Repl. 2000).
28. The failure to inform prospective investors about the pertinent regulatory history set forth in ¶ 13, above, was the omission of material information in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 2000).

ORDER

IT IS THEREFORE ORDERED that SEED INTERNATIONAL, LTD., OCEAN INTERNATIONAL MARKETING, LTD., ARCHITECTS OF WINE, LTD., CRAIG GARRETT, CARL SNAPE, RYAN FERREIRA, JADON SCHMIDT and CHRIS ELS, as well as others whose identities are not yet known who are in positions of control of SEED INTERNATIONAL, LTD., OCEAN INTERNATIONAL MARKETING, LTD. and ARCHITECTS OF WINE, LTD. and who are employed by or otherwise affiliated with SEED INTERNATIONAL, LTD., OCEAN INTERNATIONAL MARKETING, LTD. and ARCHITECTS OF WINE, LTD., directly or through other companies or business entities, **CEASE AND DESIST** from any further actions in the state of Arkansas in connection with the offer or sale of the securities described above and any other securities until such time as the securities are properly registered or shown to be exempt from registration pursuant to the Arkansas Securities Act and the persons offering them for sale are properly registered or shown to be exempt from registration pursuant to the Arkansas Securities Act.

WITNESS MY HAND AND SEAL this 4th day of March, 2004.



Michael B. Johnson
ARKANSAS SECURITIES COMMISSIONER