

1 **DEPARTMENT OF CONSUMER AND BUSINESS SERVICES**
2 **DIVISION OF FINANCE AND CORPORATE SECURITIES**
3 **SECURITIES SECTION**
 BEFORE THE DIRECTOR OF THE DEPARTMENT OF CONSUMER AND
 BUSINESS SERVICES

4 **In the Matter of:**) **No. S-04-0012**
))
5 **NORTHWEST PAYTELE**) **ORDER TO CEASE AND DESIST,**
6 **COMMUNICATIONS, INC. and**) **DENYING EXEMPTIONS, AND**
7 **STEVEN COOPER,**) **ASSESSING CIVIL PENALTIES AND**
) **CONSENT TO ENTRY OF ORDER AS**
8 **Respondents.**) **TO STEVEN COOPER**
))
9))
10))
11))

11 **WHEREAS**, the Director of the Department of Consumer and Business Services for the
12 State of Oregon (hereafter the "Director"), acting by and pursuant to the authority of the Oregon
13 Securities Law, Chapter 59 of the Oregon Revised Statutes (hereinafter cited as ORS Chapter
14 59), and other applicable authority, has a pending investigation into the activities of
15 **NORTHWEST PAYTELE COMMUNICATIONS, INC.** (hereafter "Northwest Paytele") and
16 **STEVEN COOPER** (hereafter "Cooper");

17 **WHEREAS**, Respondent **COOPER** wishes to avoid the time and expense of further
18 investigation by the Director and desires to obtain disposition of this matter without invoking his
19 right to a hearing;

20 **WHEREAS**, Respondent **COOPER** acknowledges fully reading and understanding the
21 contents of this Order to Cease and Desist, Denying Exemptions, and Assessing Civil Penalties
22 (hereafter the "Order"), and expressly waives any right to a hearing or to challenge or appeal this
23 Order;

24 **WHEREAS**, Respondent **COOPER** consents to the jurisdiction of the Director of the
25 Department of Consumer and Business Services for the purpose of this Order and the issuance
26 thereof;

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1 12. **COOPER**, who had general knowledge of the payphone industry as the result of his
2 work for CSI, recommended that a successor corporation be created in which the largest US
3 Paytele investors constitute the Board of Directors. Under this scenario, the US Paytele limited
4 partners would contribute limited partnership assets (the limited partnership operated pay
5 telephones at locations leased from third parties) to the new entity in return for its shares.

6 13. Stanfield and Cleary concurred with **COOPER**'s recommendations. The limited
7 partners of the US Paytele funds were given the choice to either sell the remaining assets and
8 distribute the proceeds to the limited partners on a pro rata basis, or to contribute the assets to
9 **NORTHWEST PAYTELE** in exchange for stock in the company, pursuant to terms outlined in
10 a disclosure statement dated July 2, 1992. The limited partners chose the latter route.

11 14. "Northwest Paytele Communications, Inc." was incorporated by Steven Cooper with
12 the State of Oregon on July 21, 1992.

13 15. Approximately 643 limited partners of the US Paytele Funds from 40 states chose to
14 contribute partnership assets in exchange for **NORTHWEST PAYTELE**'s common stock.

15 16. Of significant import to later events, when **NORTHWEST PAYTELE** was
16 incorporated, the Articles of Incorporation authorized only 15,000,000 shares of common stock.

17 17. The initial directors of **NORTHWEST PAYTELE** were William Ball, Ralph
18 Leighton, Joseph Lepetich, Steven Pirota, Albert Mancuso, Howard Yoursoff, and Steven S.
19 Cooper. Steve Cooper was chosen to serve as CEO of the new entity.

20 18. Members of **NORTHWEST PAYTELE**'s Board of Directors explicitly charged
21 **COOPER**, a full time CEO, with the responsibility of maintaining appropriate records regarding
22 the company's various offerings, including retaining copies of all offering memoranda, keeping
23 all subscription agreements, and developing a contemporaneous ledger of shares and notes
24 outstanding.

25 19. According to counsel retained by the **NORTHWEST PAYTELE**'s Board of
26 Directors shortly before **COOPER**'s resignation as CEO, the company does not have copies of

1 all of its offering memoranda, many share certificates were actually never issued to investors,
2 and no contemporaneous ledger of the company's equity and debt offerings was ever kept.

3 **Part Three: Raising Capital**

4
5 20. **NORTHWEST PAYTELE** raised capital from its base of investors via five separate
6 offerings. In its first offering after being formed, the company sold approximately \$483,123 in
7 principal amount of promissory notes (these notes were convertible to stock) to 355 persons,
8 pursuant to a disclosure statement dated July 2, 1992 ("Offering I"). Attempts were made to
9 convert the notes to common stock at \$.20 per share by many of the note holders between
10 February, 1998 and March, 2000. However, since **NORTHWEST PAYTELE** had already
11 issued the maximum number of shares authorized by its Articles of Incorporation, these attempts
12 were made to no effect.

13 21. **NORTHWEST PAYTELE** sold \$227,575 in principal amount of convertible notes,
14 and attempted to sell 14,570,348 shares of common stock to 124 persons, pursuant to a
15 disclosure statement dated July 2, 1993 ("Offering II"). **NORTHWEST PAYTELE** attempted
16 to convert these loans into 12,702,502 shares of common stock at \$.0286 per share for most of
17 these lenders from February, 1998 to April, 2000. However, since **NORTHWEST PAYTELE**
18 had already issued the maximum number of shares authorized by its Articles of Incorporation,
19 these attempts were made to no effect.

20 22. From 1994 until 1996, **NORTHWEST PAYTELE** sold \$414,663 in principal
21 amount of promissory notes, and attempted to sell 25,810,770 shares of common stock to 149
22 people ("Offering III"). It subsequently attempted to convert these notes into 19,104,974 shares
23 of common stock at \$.0286 per share from January, 1999 to March, 2000. However, since
24 **NORTHWEST PAYTELE** had already issued the maximum number of shares authorized by its
25 Articles of Incorporation, these attempts were made to no effect.

26

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1 ("Offering III"), which states that *"notes will only be sold to a person or entity who makes the*
2 *required minimum purchase and represents in writing that he has either: i) a minimum gross*
3 *income of at least \$30,000 and a net worth of \$30,000 (exclusive of homes, furnishings, and*
4 *automobiles) or ii) has a net worth of \$75,000 (exclusive of homes, furnishings, and*
5 *automobiles) or iii) is an accredited investor as defined in Regulation D."* The first two
6 components are extremely minimal in nature, and would not satisfy the definition of an
7 "accredited investor" under Oregon law.

8 28. As a result of selling securities that were not exempt from registration,
9 **NORTHWEST PAYTELE** and **COOPER** were obligated to be licensed to sell the above noted
10 offerings by the Oregon Division of Finance and Corporate Securities.

11
12 **Part Five: Offering Memoranda**

13
14 29. **NORTHWEST PAYTELE** employed offering memoranda in connection with the
15 sale of the above described securities, including documents dated July 2, 1992, July 2, 1993,
16 October 26, 1995, and February 8, 1998.

17 30. **NORTHWEST PAYTELE** Offering Memoranda II, III, IV, and V fail to disclose
18 the fact that the company had already issued shares of common stock significantly in excess of
19 the number of shares authorized (15,000,000) by the entity's Articles of Incorporation. The
20 initial "conversion" to the predecessor limited partners in Offering I used up twelve million
21 shares, and the remaining three million were rapidly distributed. As such, investors that thought
22 they were purchasing equity interests received unsecured corporate debt.

23 31. **NORTHWEST PAYTELE** Offering Memoranda II, III, IV, and V fail to disclose
24 the fact that the company did not comply with its Offering I representation that "management of
25 the company will provide an independent annual reviewed financial statement to its shareholders
26 containing a balance sheet, a statement of income, a statement of partner's equity, and a

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1 statement of changes in financial position, prepared in accordance with generally accepted
2 accounting principles” to shareholders (Offering I Disclosure, Page 3). No independently
3 reviewed financial statements were ever provided to shareholders. Not only do the four later
4 offerings not disclose the company’s actions in this regard, they repeat the same assertion. For
5 example, Offering III materials, which state that the “company objective” is to “make a public
6 offering of the company’s stock” (Offering III, Page 6), represent that “the company intends to
7 furnish its stockholders annual reports containing reviewed financial statements of the company
8 and quarterly reports containing unreviewed financial statements for each of the four quarters of
9 each fiscal year. Such reports will be sent to shareholders promptly after they become available.”
10 (Offering III, Page 4) No reviewed financial statements were ever prepared. As such, prospective
11 investors were lead to believe that they would be investing in a company that had formal controls
12 that were verifiable by third parties, a prerequisite to making any public offering. In point of fact,
13 the opposite was the case.

14 32. **NORTHWEST PAYTELE** Offering Memoranda II, III, IV, and V fail to disclose
15 that the company defaulted on its obligation, incurred in previous offerings, to make interest
16 payments to noteholders. For example, in Offering I **NORTHWEST PAYTELE** issued
17 “voluntary secured convertible loan” notes which it asserted “will pay interest and will accrue at
18 the rate of 12% per annum simple.” Interest was not paid on these notes, and this fact was not
19 mentioned in later offering memoranda. For example, Offering III materials promise a 12%
20 return on notes, payable quarterly, without mentioning the company’s default status with respect
21 to interest payments on previous notes. Likewise, memoranda from Offerings IV and V make no
22 mention of the default on Offering III interest payment obligations. As such, prospective
23 investors had no notice of the company’s prior defaults when determining whether or not to
24 invest.

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CONCLUSIONS OF LAW

The Director **CONCLUDES** that:

38. The various instruments which were offered and sold by Respondents, including notes and stock, are "securities" as defined in ORS 59.015(19)(a).

39. Respondents offered and/or sold unregistered securities in the State of Oregon in violation of ORS 59.055.

40. Respondents offered and/or sold securities in the State of Oregon without being properly licensed by the State of Oregon in violation of ORS 59.165(1).

41. Respondents, in connection with the offer and/or sale of its securities, failed to inform prospective investors that **NORTHWEST PAYTELE** did not have sufficient shares authorized for issuance, with the result that investors that believed they were purchasing equities or debt convertible at their option to equity actually had unsecured corporate debt instruments. This constitutes an untrue statement(s) of a material fact and/or an omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, in violation of ORS 59.135(2).

42. Respondents, in connection with the offer and/or sale of its securities, failed to inform prospective investors that no reviewed financial statements would be provided to them, in contravention of language in **NORTHWEST PAYTELE** offering memoranda. This constitutes an untrue statement(s) of a material fact and/or an omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, in violation of ORS 59.135(2).

43. Respondents, in connection with the offer and/or sale of its securities, failed to inform prospective promissory note investors of **NORTHWEST PAYTELE**'s defaults on previous interest payment obligations. This constitutes an untrue statement(s) of a material fact and/or an

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1 omission to state a material fact necessary in order to make the statements made, in the light of
2 the circumstances under which they are made, not misleading, in violation of ORS 59.135(2).

3 44. Respondents, in connection with the offer and/or sale of its securities, failed to inform
4 prospective investors that **NORTHWEST PAYTELE** securities were not "registered" with the
5 Division of Finance and Corporate Securities. This constitutes an untrue statement(s) of a
6 material fact and/or an omission to state a material fact necessary in order to make the statements
7 made, in the light of the circumstances under which they are made, not misleading, in violation
8 of ORS 59.135(2).

9 45. Respondents, in connection with the offer and/or sale of its securities, failed to inform
10 prospective investors that **COOPER** was not licensed by the Oregon Division of Finance and
11 Corporate Securities as either a broker-dealer salesperson or an issuer salesperson. This
12 constitutes an untrue statement(s) of a material fact and/or an omission to state a material fact
13 necessary in order to make the statements made, in the light of the circumstances under which
14 they are made, not misleading, in violation of ORS 59.135(2).

15
16 **ORDER**

17
18 Therefore, the Director **ORDERS**

19 1. That Respondents shall cease and desist from offering and/or selling securities to
20 persons in the State of Oregon in violation of ORS Chapter 59, OAR Chapter 441, or the Oregon
21 securities law.

22 2. That Respondent **NORTHWEST PAYTELE** is ordered to pay the sum of
23 **TWENTY FIVE THOUSAND DOLLARS (\$25,000.00)** as a civil penalty for violations of
24 ORS 59.055, ORS 59.135, and ORS 59.165 described herein.

25 3. That Respondent **STEVEN COOPER** is ordered to pay the sum of **TWENTY**
26 **FIVE THOUSAND DOLLARS (\$25,000.00)** as a civil penalty for violations of ORS 59.055,



1 ORS 59.135, and ORS 59.165 described herein; **THREE THOUSAND DOLLARS**
2 (\$3,000.00) of said penalty to be paid in **MONTHLY INSTALLMENTS OF TWO**
3 **HUNDRED AND FIFTY DOLLARS (\$250.00), COMMENCING ON JUNE 1, 2005 AND**
4 **CONTINUING ON THE FIRST DAY OF EACH MONTH THEREAFTER UNTIL**
5 **THREE THOUSAND DOLLARS HAS BEEN PAID; TWENTY TWO THOUSAND**
6 **DOLLARS (\$22,000) of said penalty shall be SUSPENDED** so long as Respondent **COOPER**
7 makes all monthly payments in a timely fashion, at which time said amount shall be waived.
8 (Time is of the essence for purpose of this Order; failure to remit a scheduled payment will cause
9 the entire **TWENTY FIVE THOUSAND DOLLAR CIVIL PENALTY, MINUS AMOUNTS**
10 **PAID, TO BECOME IMMEDIATELY DUE AND OWING.**)

11 4. That Respondent **COOPER** is hereby **PERMANENTLY PROHIBITED**
12 from obtaining licensure as an investment advisor in Oregon.

13 5. That Respondent **COOPER** is **PERMANENTLY PROHIBITED** from applying
14 for an Oregon broker dealer salesperson or issuer salesperson license.

15 6. That Respondent **COOPER** is hereby **PERMANENTLY PROHIBITED**
16 from obtaining an ownership interest in any broker-dealer licensed by the State of Oregon.

17 7. That Respondents are hereby denied use of any exemptions authorized by ORS
18 59.025 and ORS 59.035, until further order of the Director, pursuant to ORS 59.045.

19 **IT IS SO ORDERED.**

20 Dated this 3rd day of JUNE, 2005 at Salem, Oregon.

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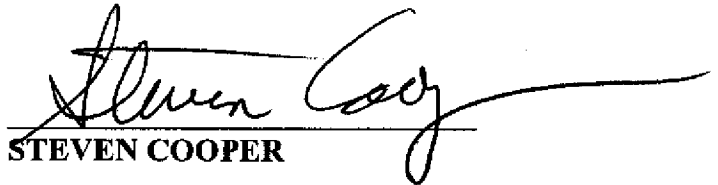
23 **CORY STREISINGER, DIRECTOR**
DEPARTMENT OF CONSUMER & BUSINESS SERVICES

24 **By FLOYD LANTER, ADMINISTRATOR**
25 **DIVISION OF FINANCE AND CORPORATE SECURITIES**
26


1 **CONSENT TO ENTRY OF ORDER**

2 I, **STEVEN COOPER**, state that I am a resident of the State of Oregon, that I have read
3 the foregoing Order, that I fully understand the contents thereof; that I have been advised of a my
4 right to a hearing in this matter; that I have had the opportunity to have been represented by
5 counsel of my choosing but have decided to represent my own interests; that I voluntarily
6 consent to the entry of this Order without any force or duress, expressly waiving any right to a
7 hearing or appeal in this matter; that I understand that the Director reserves the right to take
8 further actions to enforce this Order or to take appropriate action upon discovery of other
9 violations not covered by this Order; that I will fully comply with the terms and conditions stated
10 herein and will not engage in any securities related activity in this state; that I affirm that the
11 assertions stated herein are true and correct; that I understand that this Consent Order is a public
12 document.

13
14 Dated this 31st day of MAY, 2005.

15 
16 **STEVEN COOPER**

17
18 SUBSCRIBED AND SWORN to before me, this 31 day of MAY, 2005.

19 
20 Notary Public
21 for the State of: OREGON
22 My commission expires: 12/22/05

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