

1 1006 SE Clinton Street, Portland, Oregon 97202. This mailing was returned to sender, unsigned,
2 marked "Forward Time Exp Rtn to Send."

3 Respondent **NORTHWEST PAYTELE COMMUNICATIONS, INC.** has not made a
4 written request for a contested case hearing in this matter and the time to do so has expired.

5 **NOW THEREFORE**, after consideration of the Investigation Report and accompanying
6 exhibits submitted in this matter by David T. Weiss, Enforcement Officer, the Director hereby
7 issues the following Findings of Fact, Conclusions of Law, and Final Order:

8 **FINDINGS OF FACT**

9 The Director **FINDS** that:

10 **Part One: Parties**

11
12 1. **NORTHWEST PAYTELE** was, at all times material herein, a for profit Oregon
13 corporation operating payphones for its own account throughout the Pacific Northwest.

14 **NORTHWEST PAYTELE** has a last known address of 1006 SE Clinton Street, Portland,
15 Oregon 97202.

16 2. **COOPER** was, at all times material herein, the Chief Executive Officer ("CEO") of
17 Northwest Paytele Communications, Inc. **COOPER** has a last known address of 5805 SE 40th,
18 Portland, Oregon 97202.

19 3. **NORTHWEST PAYTELE**, at all times material herein, was not licensed as a
20 broker-dealer or issuer by the Oregon Division of Finance and Corporate Securities.

21 4. **NORTHWEST PAYTELE**, at all times material herein, was not authorized to sell
22 securities in the State of Oregon.

23 5. **COOPER**, at all times material herein, was not licensed as a broker-dealer
24 salesperson by the Oregon Division of Finance and Corporate Securities. Although **COOPER**
25 was at one time so licensed, his licensure (CRD #712734) was not current at the time of the
26 **NORTHWEST PAYTELE** securities offerings.

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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.

25 **33. NORTHWEST PAYTELE** Offering Memorandum V failed to disclose that USIW,
26 a company it was acquiring, recorded net losses each year from 1992 through 1998. Respondent

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1 **NORTHWEST PAYTELE** represented **USIW** to be a financially successful company which
2 had booked a \$149,044 profit in 1997. In point of fact, this figure did not factor in **USIW**'s
3 obligation to add back depreciation for reporting purposes, a serious omission. According to
4 generally accepted accounting principles, **USIW** was operating at a deficit.

5 34. **NORTHWEST PAYTELE** Offering Memoranda I, II, III, IV, and V fail to disclose
6 that its securities were required to be registered with the Oregon Division of Finance and
7 Corporate Securities but would not be.

8 35. **NORTHWEST PAYTELE** Offering Memoranda I, II, III, IV, and V fail to disclose
9 that **COOPER** was required to be licensed as an issuer salesperson but would not be.

10
11 **Part Six: Corporate Demise**
12

13 36. The Board of Directors of **NORTHWEST PAYTELE** asked **COOPER** to resign on
14 February 28, 2002 for several reasons. First, the Board felt **COOPER** should have kept it
15 informed of the fact that the company owed ninety thousand dollars (\$90,000) to a key vendor,
16 **Qwest**. **COOPER** asserts that he kept this payable off the P & L statement shown to the Board
17 because it was a disputed amount. Second, the Board claimed it was not apprised of **COOPER**'s
18 actions in obligating **NORTHWEST PAYTELE** to a lucrative employment contract for the
19 previous owners of **USIW**: this duo was assured of a joint monthly salary of \$15,000 plus health
20 benefits and three years severance if they were terminated at a time when **COOPER** made one
21 third that amount and the company was struggling mightily.

22 37. After the Board terminated **COOPER**, its Chairman sent three retired Bell Telephone
23 executives (Larry Stronnen, John Lambert, and Troy Vescoe) to review operations at
24 **NORTHWEST PAYTELE**. They informed the Chairman of the Board of Directors that they
25 found inadequate record keeping and poor operational controls.
26

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1 38. On June 16, 2003 Northwest Paytele Communications, Inc. sent a letter to
2 shareholders that noted “[w]e regret to inform you that we are ceasing business operations. We
3 have been delinquent in paying for the telephone line charges for most of our pay telephones. As
4 a result, Qwest has discontinued service and since we are in a negative cash flow position and
5 have no cash, we are not in a position to continue operating.”

6
7 **CONCLUSIONS OF LAW**

8
9 The Director **CONCLUDES** that:

10
11 39. The various instruments which were offered and sold by Respondents, including
12 notes and stock, are “securities” as defined in ORS 59.015(19)(a).

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

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

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

24 43. Respondents, in connection with the offer and/or sale of its securities, failed to inform
25 prospective investors that no reviewed financial statements would be provided to them, in
26 contravention of language in **NORTHWEST PAYTELE** offering memoranda. This constitutes



1 an untrue statement(s) of a material fact and/or an omission to state a material fact necessary in
2 order to make the statements made, in the light of the circumstances under which they are made,
3 not misleading, in violation of ORS 59.135(2).

4 44. Respondents, in connection with the offer and/or sale of its securities, failed to inform
5 prospective promissory note investors of **NORTHWEST PAYTELE**'s defaults on previous
6 interest payment obligations. This constitutes an untrue statement(s) of a material fact and/or an
7 omission to state a material fact necessary in order to make the statements made, in the light of
8 the circumstances under which they are made, not misleading, in violation 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 USIW had a net loss from 1992 to 1998. This constitutes an untrue
11 statement(s) of a material fact and/or an omission to state a material fact necessary in order to
12 make the statements made, in the light of the circumstances under which they are made, not
13 misleading, in violation of ORS 59.135(2).

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

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

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1 **ORDER**

2
3 Therefore, the Director **ORDERS**

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

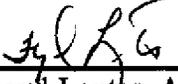
7 2. That Respondent **NORTHWEST PAYTELE COMMUNICATIONS, INC.** is
8 ordered to pay the sum of **TWENTY FIVE THOUSAND DOLLARS (\$25,000.00)** as a civil
9 penalty for violations of ORS 59.055, ORS 59.135, and ORS 59.165 described herein.

10 3. That Respondent **NORTHWEST PAYTELE COMMUNICATIONS, INC.** is
11 hereby denied the use of any exemptions authorized by ORS 59.025 and ORS 59.035, until
12 further order of the Director, pursuant to ORS 59.045.

13 **IT IS SO ORDERED.**

14 Dated this 3rd day of June, 2005, NUNC PRO TUNC January 7, 2005 at Salem, Oregon.

15 CORY STREISINGER, Director
16 Department of Consumer and Business Services

17 
18 _____
19 Floyd Lanter, Administrator
20 Division Of Finance And Corporate Securities

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