DEPARTMENT OF INSURANCE AND FINANCE
DIVISION OF FINANCE AND CORPORATE SECURITIES
SECURITIES SECTION
BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE AND FINANCE
STATE OF OREGON

In the Matter of:	0-91-0030
HARRY DEAN PROUDFOOT, III; INSURANCE DESIGNERS OF THE NORTHWEST, INC.; and PHIL JENSEN,	CEASE AND DESIST ORDER ORDER REVOKING LICENSE ORDER DENYING EXEMPTIONS and CONSENT TO ENTRY OF ORDER BY HARRY DEAN PROUDFOOT, III
Respondents.	

WHEREAS the Director of the Department of Insurance and Finance ("the Director") has conducted an investigation of INSURANCE DESIGNERS OF THE NORTHWEST, INC. ("IDN"), HARRY DEAN PROUDFOOT, III ("PROUDFOOT"), and PHIL JENSEN ("JENSEN") and determined that IDN, PROUDFOOT AND JENSEN transacted securities business in the State of Oregon in violation of the Oregon Securities Law; and,

WHEREAS PROUDFOOT wishes to resolve and settle this matter by consent to the entry of this Order and by accepting the sanctions imposed herein;

NOW THEREFORE, as evidenced by the authorized signature subscribed on the within Consent to Entry of Order, PROUDFOOT hereby **CONSENTS** to entry of this Order as stated hereinafter:

FINDINGS OF FACT

The Director **FINDS** that:

1. Respondent Harry Dean Proudfoot, III, resides at 14880 SW 150th, Tigard, Oregon 97224. Respondent PROUDFOOT has been licensed by the Department of Insurance and Finance of the State of Oregon ("the Department") since April

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Corporate Securities Section
21 Labor and Industries Building
Salem OR 97310
(503) 378-4387

440-2087 (Rev. 2/89)

1, 1968 as an insurance agent authorized to sell life and health insurance. Respondent PROUDFOOT has been licensed by the Department since 1986 to sell securities on behalf of Philadelphia Life Asset Planning Co. ("Philadelphia Life").

2. Respondent PROUDFOOT is not, and has never been, licensed by the Department to conduct securities transactions other than as a salesperson licensed to Philadelphia Life. PROUDFOOT's authority under that license is limited to effecting or attempting to effect sales of investment company securities, variable contracts, and mutual funds.

3. Insurance Designers of the Northwest, Inc. ("IDN") was an Oregon corporation incorporated on January 16, 1987 and dissolved on March 16, 1990. IDN had its principal office at 5550 SW Macadam, Suite 215, Portland, Oregon 97201. During IDN's corporate existence, Respondent PROUDFOOT was its president and agent for service of process and was responsible for its management, control, and daily operations.

4. On May 3, 1990, Respondent PROUDFOOT registered "Insurance Designers of the Northwest" as an assumed business name with the State of Oregon Corporation Division, and presently conducts business under that name. The principal office address at which Respondent PROUDFOOT conducted business under the name "Insurance Designers of the Northwest" was formerly 11825 SW Greenburg Road, #2-A, Tigard, Oregon 97223. Respondent PROUDFOOT presently conducts business at his residence address.

5. Respondent PROUDFOOT declared bankruptcy in 1983, in substantial part to discharge debts to clients to whom he claimed to have sold, but to whom he failed to deliver, silver bullion. Proudfoot maintains that in connection with the bullion sales, he was a salesman only, sold the bullion in good faith, was

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Corporate Securities Section
21 Labor and Industries Building
Salem OR 97310
(503) 378-4387

unable to get the product delivered, and became insolvent as a result of efforts to reimburse customers from his own resources.

6. On March 22, 1990, Respondent PROUDFOOT filed a personal bankruptcy petition with the U.S. Bankruptcy Court for the District of Oregon, pursuant to Chapter 13 of the U.S. Bankruptcy Code.

7. Respondent Phil Jensen ("JENSEN") resides at 14081 SE Rust Way, Boring, Oregon 97009. From May 29, 1987 until May 31, 1990, Respondent JENSEN was licensed by the Department as a salesperson of life and health insurance. Respondent JENSEN has never been licensed by the Department to conduct securities transactions in any capacity.

8. In the fall of 1988, Respondent PROUDFOOT was engaged in business as the managing general agent for a number of insurance companies. In this capacity, he supervised the activities of agents who were authorized to sell life and health insurance for these companies. In or about October 1988 and continuing through 1989, PROUDFOOT attempted to expand his life insurance brokerage and annuity business operations by setting up offices and, in some cases, corporations, in the states of Washington, Idaho, Utah, Nevada, and California. PROUDFOOT obtained licenses authorizing him to sell life and health insurance in each of these states, and began to advertise and to select and train agents in Salt Lake City, Las Vegas, Boise, and other areas. During this period, PROUDFOOT prepared and distributed to Oregon residents a brochure describing IDN as a national network of companies with offices in many states. None of the branch offices was successful and the expansion project was abandoned. PROUDFOOT now conducts business at his residence address under the assumed business name "Insurance Designers of the Northwest."

9. In or about October 1988, Respondent JENSEN was an agent authorized to

OREGON DEPARTMENT OF INSURANCE AND FINANCE
Corporate Securities Section
21 Labor and Industries Building
Salem OR 97310
(503) 378-4387

sell life and health insurance for a number of insurance companies under the supervision of PROUDFOOT as managing general agent. At that time, PROUDFOOT told JENSEN that he wanted to expand his business by setting up branch offices in a number of other states, and needed to borrow some money for a year and a half. PROUDFOOT asked JENSEN if he knew anyone who would lend him some money.

10. PROUDFOOT told JENSEN that any loans JENSEN obtained for him would pay interest at the rate of 15 percent per annum. PROUDFOOT also told JENSEN that, pursuant to agreements with insurance companies for which PROUDFOOT was managing general agent, IDN was entitled to receive overrides, called "bonuses," on sales by agents whom PROUDFOOT supervised. PROUDFOOT told JENSEN that any loans JENSEN obtained for him would be secured by these anticipated bonuses. PROUDFOOT told JENSEN that, based on his experience, the anticipated bonuses could be expected to be at least equal to the amount of the loans they secured.

11. PROUDFOOT did not disclose to JENSEN, and JENSEN failed to disclose to prospective investors: any information concerning PROUDFOOT's own or IDN's assets or financial condition; the assets or financial condition of the insurance companies from which PROUDFOOT said he anticipated receiving the bonus payments to be assigned as collateral; the fact that PROUDFOOT had declared bankruptcy in 1983, or the nature or amount of the debts discharged in his 1983 bankruptcy proceeding.

12. Between the latter part of 1988 and continuing through at least August 1989, JENSEN approached a number of Oregon residents to obtain loans for PROUDFOOT. From at least five Oregon residents, JENSEN obtained at least seven loans on PROUDFOOT's behalf. JENSEN obtained the loans through the sale of promissory notes issued by IDN. JENSEN provided to each investor documents purporting to assign to the investor IDN's interest in one or more of the

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Corporate Securities Section
21 Labor and Industries Building
Salem OR 97310
(503) 378-4387

bonuses described above in paragraph 10.

13. The notes issued by PROUDFOOT and IDN, and sold through JENSEN, were not registered for sale as securities in Oregon.

14. PROUDFOOT paid JENSEN a commission of ten percent of the face amount of the loan for each loan JENSEN obtained.

15. The notes JENSEN sold were executed by PROUDFOOT as president of IDN. As security for the loans, PROUDFOOT assigned to investors anticipated bonus payments that were owed to IDN. The assignments were typically accompanied by a copy of a corporate resolution of IDN, authorizing PROUDFOOT to assign the anticipated bonuses to the note purchasers.

16. PROUDFOOT and IDN issued notes in the following amounts:

(a) A note dated December 23, 1988, for $100,000.00, due January 23, 1990, with interest at the rate of 15 percent per annum, to Lillian Loudon, 151 NW 6th, Toledo, Oregon 97391;

(b) A note dated January 11, 1989, for $15,000.00, due July 26, 1990, with interest at the rate of 15 percent per annum, to Wayne and Virginia Woolsey, 631 NW Grove, Newport, Oregon 97365;

(c) A note dated June 23, 1989, for $20,000.00, due September 23, 1990, with interest at the rate of 15 percent per annum, to Lillian Loudon;

(d) A note dated July 18, 1989, for $35,000.00, due January 23, 1991, with interest at the rate of 15 percent per annum, to Robert R. and Audrey J. Bowen, 83925 Cloud Nine Road, Florence, Oregon 97439;

(e) A note dated August 3, 1989, for $10,000.00, due February 23, 1991, with interest at the rate of 15 percent per annum, to Muriel F. Warner, 48790 Breaker Avenue, Neskowin, Oregon 97149;

(f) A note dated August 9, 1989, for $17,500.00, due February 23, 1991, with interest at the rate of 15 percent per annum, to Virginia Woolsey; and

(g) A note dated October 10, 1989, for $20,000.00, due April 25, 1991, with interest at the rate of 15 percent per annum, to Florence Simpson, 15555 SE McKinley Avenue, Clackamas, Oregon 97015.

17. None of the notes PROUDFOOT and IDN issued has been repaid in full and

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Corporate Securities Section
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(503) 378-4387

both principal and additional interest payments are due on each of them.

18. The insurance companies failed to make a number of the bonus payments PROUDFOOT and IDN assigned as collateral on the loans. PROUDFOOT indicates that he paid over to Lillian Loudon, on or about January 17, 1991, $30,000.00 in bonus payments, and that thereafter, the insurance companies failed and PROUDFOOT did not receive any other bonuses.

19. Respondent PROUDFOOT maintains that his actions as described in this Order were pursuant to a good faith but unsuccessful effort on his part to expand the business operations of IDN, and that insofar as he and IDN may have violated the Oregon Securities Law, those violations were not intentional in that they resulted from ignorance of the Oregon Securities Law.

CONCLUSIONS OF LAW

The Director **CONCLUDES** that:

1. Respondent PROUDFOOT was the sole and controlling principal of Respondent IDN during its corporate existence and is responsible and liable for all its activities.

2. The notes that IDN and PROUDFOOT issued and sold, and that Respondent JENSEN sold on behalf of Respondents IDN and PROUDFOOT, are securities, as defined in ORS 59.015(17).

3. Respondents IDN and PROUDFOOT issued and sold securities in Oregon which were not registered with the State of Oregon, in violation of ORS 59.055;

4. Respondent JENSEN offered and sold securities in Oregon which were not registered with the State of Oregon, in violation of ORS 59.055.

5. Respondents IDN and PROUDFOOT employed JENSEN as a salesperson to sell securities in Oregon without benefit of licensing, in violation of ORS 59.165(3).

6. Respondent JENSEN transacted business as a salesperson in Oregon

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Corporate Securities Section
21 Labor and Industries Building
Salem OR 97310
(503) 378-4387

without being licensed to do so, in violation of ORS 59.165(1).

7. Respondents PROUDFOOT and IDN, in connection with the purchase or sale of securities in Oregon, made untrue statements of material fact and omitted to state facts necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, in violation of ORS 59.135(2).

8. Respondent PROUDFOOT has engaged in illegal conduct in violation of the Oregon Securities Law, which conduct constitutes a basis, pursuant to ORS 59.205, for revocation of his license to sell securities.

9. Respondent JENSEN, in connection with the purchase or sale of securities in Oregon, made untrue statements of material fact and omitted to state facts necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, in violation of ORS 59.135(2).

ORDER

NOW, THEREFORE, THE **DIRECTOR ORDERS**, pursuant to ORS 59.245(4), that respondents INSURANCE DESIGNERS OF THE NORTHWEST, HARRY DEAN PROUDFOOT, III, and all persons and entities through whom or which it or he may act shall **CEASE AND DESIST** from:

1. Issuing, offering for sale and/or selling securities which are not registered with the State of Oregon;

2. Selling securities unless licensed in this State pursuant to the Oregon Securities Law;

3. Employing any person to act as a salesperson in this state without benefit of licensing;

4. Engaging in any acts or practices which are false, fraudulent or

OREGON DEPARTMENT OF INSURANCE AND FINANCE
Corporate Securities Section
21 Labor and Industries Building
Salem OR 97310
(503) 378-4387

deceptive as provided under ORS Chapter 59; and

5. Violating any of the provisions of ORS Chapter 59.

THE DIRECTOR FURTHER **ORDERS**, pursuant to ORS 59.045(2), that Respondents INSURANCE DESIGNERS OF THE NORTHWEST, INC. and HARRY DEAN PROUDFOOT, III, and all persons and entities through whom or which it or he may act are **DENIED** the use of any exemptions that would otherwise be available to them under ORS 59.025 and ORS 59.035.

THE DIRECTOR FURTHER, pursuant to ORS 59.205, **REVOKES** the license issued by the State of Oregon to Respondent HARRY DEAN PROUDFOOT, III, to sell securities on behalf of Philadelphia Life Asset Planning Co.

THE DIRECTOR **ASSESSES** the following civil penalties pursuant to ORS 59.995:

1. Respondents INSURANCE DESIGNERS OF THE NORTHWEST, INC. and HARRY DEAN PROUDFOOT, III, jointly and severally are **ORDERED** TO PAY a **CIVIL PENALTY** of $2,500 for each of the seven (7) sales of unregistered securities in violation of ORS 59.055, as described in paragraph 16 of the Director's Findings of Fact, and $2,500 for violation of ORS 59.135(2), a total of $20,000.

THE DIRECTOR FURTHER ORDERS that the civil penalties assessed against Respondents INSURANCE DESIGNERS OF THE NORTHWEST, INC., and HARRY DEAN PROUDFOOT, III, pursuant to this Order shall be suspended until such time as either or both of them shall engage in any activity which is regulated or prohibited by ORS Chapter 59 (the Oregon Securities Law) or ORS 645 (Commodity Transactions) as these statutes may from time to time be amended.

THE DIRECTOR FURTHER ORDERS that Respondent HARRY DEAN PROUDFOOT, III, shall notify the Director in writing no less than 60 days prior to knowingly

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Corporate Securities Section
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engaging, personally or through any person or entity, in any activity or conduct subject to ORS Chapter 59 or ORS Chapter 645.

Dated this 3rd day of March, 1993 at Salem, Oregon.

Gary Weeks, Director
Department of Insurance and Finance

CONSENT TO ENTRY OF ORDER

I, HARRY DEAN PROUDFOOT, III, state that I am one of the individual Respondents herein; that I have read the foregoing Order and that I know and fully understand the contents thereof; that I have been advised of my right to a hearing, and that I consent to the entry of this Order without a hearing; that I consent to the entry of the annexed Order voluntarily without any force or duress both in my personal capacity and on behalf of Insurance Designers of the Northwest, Inc.; that I understand that the Director reserves the right to take further actions to enforce this Order, or, upon discovery, to prosecute other violations, if any, of the Oregon Securities Law.

I, HARRY DEAN PROUDFOOT, III, further assure the Director that both I and IDN, Inc. will fully comply with the terms and conditions of this Order; that I have no present plan or intention to engage in any activity or conduct subject to the Oregon Securities Law, which I understand to be Chapter 59 of the Oregon Revised Statutes, or to ORS Chapter 645, which I understand regulates Commodity Transactions, including but not limited to transactions in gold, silver, and other precious metals; and I hereby agree, in consideration of the Director's acceptance of the settlement embodied in this Order, to notify the Director, in

OREGON DEPARTMENT OF INSURANCE AND FINANCE
Corporate Securities Section
21 Labor and Industries Building
Salem OR 97310
(503) 378-4387

writing, no less than 60 days in advance of my knowingly engaging, either personally or through any other person or entity, in any such conduct or activity.

I understand further that this Consent Order is a public document.

Dated this 2nd day of March, 1993.

HARRY DEAN PROUDFOOT, III, Individually

FOR INSURANCE DESIGNERS OF THE NORTHWEST, INC.:

HARRY DEAN PROUDFOOT, III, President

SUBSCRIBED AND SWORN TO before me this 2nd day of March, 1993.

Carol Jorgensen
NOTARY PUBLIC

My commission expires: 10-2-94

OFFICIAL SEAL
CAROL JORGENSEN
NOTARY PUBLIC - OREGON
COMMISSION NO.001968
MY COMMISSION EXPIRES OCT. 02, 1994

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