DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
DIVISION OF FINANCE AND CORPORATE SECURITIES
SECURITIES SECTION
BEFORE THE DIRECTOR OF THE DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

In the Matter of:	**No. S-04-0012**
NORTHWEST PAYTELE COMMUNICATIONS, INC. and STEVEN COOPER,	**ORDER TO CEASE AND DESIST, DENYING EXEMPTIONS, AND ASSESSING CIVIL PENALTIES AND CONSENT TO ENTRY OF ORDER AS TO STEVEN COOPER**
Respondents.	

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

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

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

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

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WHEREAS, Respondent **COOPER** has been notified and understands that a violation of this Order will potentially subject him to the assessment of a further civil penalty or other action by the Director;

NOW THEREFORE, the Director hereby issues the following Findings of Fact and Conclusions of Law, which Respondent **COOPER** neither admits nor denies, and issues the following Order, to which Respondent **COOPER** has consented, as is evidenced by the signature of Respondent **COOPER** on the Consent to Entry of Order attached hereto.

FINDINGS OF FACT

The Director **FINDS** that:

Part One: Parties

1. **NORTHWEST PAYTELE** was, at all times material herein, a for profit Oregon corporation operating payphones for its own account throughout the Pacific Northwest. **NORTHWEST PAYTELE** has a last known address of 1006 SE Clinton Street, Portland, Oregon 97202.

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

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

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

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

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6. **COOPER**, at all times material herein, was not licensed as an issuer salesperson by the Oregon Division of Finance and Corporate Securities.

7. **COOPER**, at all times material herein, was not authorized to sell securities in the State of Oregon.

Part Two: Company Roots and Governance

8. **COOPER** was the CEO of **NORTHWEST PAYTELE** from its founding in July, 1992 to his resignation in February, 2002.

9. **COOPER** took and passed the Series 7, Series 24, and Series 63 securities licensure examinations. Passing these examinations requires, *inter alia*, an understanding of the requirements of the Oregon Securities Law, ORS 59.005 *et seq*.

10. VSR Financial Services, Inc. was a Kansas City brokerage firm that was involved in the formation and sale of a series of California telecommunications limited partnerships (US Paytele Funds I, II, and III were formed on, respectively, March 10, 1988, March 25, 1989, and October 1, 1989). Managers of the limited partnerships were, on information and belief, convicted of federal offenses involving fraud committed against the limited partnerships. Mike Stanfield, President of VSR, and Don Cleary, Executive Vice President of the firm, organized a committee of limited partnership shareholders, consisting of those with the largest financial stakes, to determine what action to take to further the limited partners' interests after the departure of the limited partnerships' managers.

11. Stanfield had a previous business relationship with Al Mancuso, President of "CSI", a telecommunications company in Washington state. Mancuso, in turn, had a business relationship with **COOPER**, whose brokerage firm, Investment Capital Corporation, had helped Mancuso raise money for CSI. Mancuso recommended to Stanfield that **COOPER** be retained to investigate possible options for the limited partners and prepare a report for VSR.

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

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

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

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

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

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

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

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

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

Part Three: Raising Capital

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

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

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

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23. **NORTHWEST PAYTELE** sold $426,605 in principal amount of "12% senior secured ten year callable convertible corporate notes" to 88 persons, pursuant to a disclosure statement dated October 26, 1995 ("Offering IV"). **NORTHWEST PAYTELE** subsequently attempted to convert the Corporate Notes to 5,561,335 shares of common stock at $.10 per share from September, 1998 to March, 2000. However, since **NORTHWEST PAYTELE** had already issued the maximum number of shares authorized by its Articles of Incorporation, these attempts were made to no effect.

24. To finance the acquisition of another pay telephone company, US Intell-A-West Inc ("USIW"), **NORTHWEST PAYTELE** attempted to sell 134,496,197 shares of common stock at $.0032 per share from March, 1998 onward, pursuant to a disclosure statement dated February 8, 1998 ("Offering V"). However, **NORTHWEST PAYTELE** had already issued the maximum number of shares authorized by its Articles of Incorporation.

Part Four: Failure To Register Securities

25. The above described **NORTHWEST PAYTELE** offerings were not registered with the Oregon Division of Finance and Corporate Securities.

26. Said securities were required by law to be registered unless exempt from registration, pursuant to ORS 59.025 or ORS 59.035. (The burden of proving qualification for an exemption lies with one claiming the exemption and not with the Division.) Other than a naked representation by **COOPER** that he was informed by a third party that all of **NORTHWEST PAYTELE**'s original investors were "accredited", the Division has not viewed any evidence that would allow it to conclude that the Respondents have met their burden in proving qualification for an exemption.

27. The Division's concerns in this regard are heightened by the standards for investment employed by Respondents in **NORTHWEST PAYTELE**'s October 26, 1995 offering document

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

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

Part Five: Offering Memoranda

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

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

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

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

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

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

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

Part Six: Corporate Demise

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

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

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

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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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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).

44. Respondents, in connection with the offer and/or sale of its securities, failed to inform prospective investors that **NORTHWEST PAYTELE** securities were not "registered" with the Division of Finance and Corporate Securities. 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).

45. Respondents, in connection with the offer and/or sale of its securities, failed to inform prospective investors that **COOPER** was not licensed by the Oregon Division of Finance and Corporate Securities as either a broker-dealer salesperson or an issuer salesperson. 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).

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ORDER

Therefore, the Director **ORDERS**

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

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

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

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

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

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

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

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

IT IS SO ORDERED.

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

CORY STREISINGER, DIRECTOR
DEPARTMENT OF CONSUMER & BUSINESS SERVICES

By FLOYD LANTER, ADMINISTRATOR
DIVISION OF FINANCE AND CORPORATE SECURITIES

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CONSENT TO ENTRY OF ORDER

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

Dated this 31st day of May, 2005.

STEVEN COOPER

SUBSCRIBED AND SWORN to before ~~me~~ this 31 day of May, 2005.

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

OFFICIAL SEAL
SUSAN L. SCHOAPS
NOTARY PUBLIC-OREGON
COMMISSION NO. 351565
MY COMMISSION EXPIRES DEC. 22, 2005

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