

ALAN G. LANCE
ATTORNEY GENERAL
STATE OF IDAHO

Scott B. Muir
Deputy Attorney General
State of Idaho
Department of Finance
P.O. Box 83720
Boise, ID 83720-0031
Telephone: (208) 332-8091
Facsimile: (208) 332-8099
Idaho State Bar Number 4229

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF FINANCE
OF THE STATE OF IDAHO**

STATE OF IDAHO, Department of)	
Finance, Securities Bureau,)	Docket No. 2000-7-46
)	
Complainant,)	CEASE AND DESIST ORDER
)	
vs.)	
)	
Paul H. Smith and Steve Munson,)	
)	
Respondents.)	
_____)	

The Director of the Department of Finance, pursuant to the authority of the Idaho Securities Act, Idaho Code §30-1401, *et seq.*, has reasonable grounds to believe that violations of the Idaho Securities Act have occurred, and may continue to occur, as follows:

RESPONDENTS

1. Paul H. Smith (Smith) is a securities sales representative employed by Sentra Securities Corporation. Smith became registered as a securities salesperson with the

Idaho Department of Finance on May 23, 2000. In association with his securities business, Smith also operates a personal financial services business under the name of Planning Services. Smith operates from 5015 Canyon Crest Drive, Riverside, California.

2. Steve Munson (Munson) is an individual residing at or operating from 11671 W. Jennilyn, Boise, Idaho. Munson is associated with Smith in the offer and perhaps the sale of investment opportunities to Idaho residents. Munson is not registered with the Idaho Department of Finance to offer or sell securities.

BACKGROUND

3. The Idaho Statesman carried an advertising insert on or near Sunday, May 21, 2000. In part, the advertising flier announced 3 seminars that would discuss "3 Ways to Make Your Money Earn 12%, Fixed Secured and INSURED and without market risk!" The flier further stated that investors could "Discover HOW by attending one or more of this series of FREE seminars by Paul H. Smith of Planning Services". The seminars were scheduled at three senior citizen centers in Boise, Nampa and Caldwell, Idaho respectively. A true and correct copy of the advertisement is attached as Exhibit A.

4. On May 25, 2000, Smith and Munson made presentations in Boise, Idaho and elsewhere as described in the advertising flier.

5. In at least one of the seminars, Smith and Munson discussed three investment options that seniors could consider as ways to earn 12% on their investment and that the investment vehicles were "safe". Smith noted that he had been in the financial services business for some seven years and that the substance of the presentation had been altered to be more "generic" in nature since the State of Idaho was then currently reviewing the investments to determine if they were securities that would need to be regulated. Smith

indicated that Idaho was one of very few states that might consider such investments as securities. Smith further stated that the State of California did not consider the presented investments to be a security. The Respondents indicated that they could speak privately with interested investors and perhaps provide them with more information regarding the investments if desired.

6. The description of the three investments made by Smith and Munson included:

A. Viatical Investment – Smith and Munson informed investors that they could earn approximately 14% by investing in viatical settlements and that such an investment was a safe investment.

B. Telecommunications Investment – The Respondents described a passive investment medium that involved an investment in pay telephones that would be managed by persons other than the investors. The program offered by the Respondents involved a management company known as PAYSTAR and an equipment purchasing company known as ITI. The Respondents represented that investors would not need to be active in the investment and that investors could expect returns of 1% per month on their invested principal. The Respondents indicated that an investor's principal and income stream would be "guaranteed" and that an independent surety company could provide backing to assure the guarantees made by PAYSTAR. The Respondents failed to inform investors that PAYSTAR and Interactive Technologies, Inc. (ITI) are the subject of a Cease and Desist Order issued by the Pennsylvania Securities Commission during December 1999.

C. Investment in GTI – The Respondents described GTI as an Atlanta, Georgia based company that was formed by engineers who had developed some switching equipment that allowed for the faster transmission of data. The Respondents represented that GTI

was "looking for investors", that an investment in GTI would yield 13% and that an investor could realize income on a monthly basis if desired.

COUNT ONE

7. The investments offered and possibly sold by Respondents are securities as defined in Idaho Code §30-1402(12).

8. The securities offered by Respondents have not been registered with the Idaho Department of Finance as required by Idaho Code §30-1416.

9. Respondents have violated Idaho Code 30-1416.

COUNT TWO

10. At no time has Respondent Munson been licensed by the Department of Finance as a broker-dealer or salesman for a broker-dealer to sell or offer for sale securities as required by Idaho Code §30-1406.

11. Respondent Smith solicited securities clients through the public distribution of the advertising flier at a time when he was not registered as required under Idaho Code §30-1406.

12. Respondents have violated Idaho Code §30-1406.

COUNT THREE

13. In connection with the offer or sale of securities, Respondents omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading in violation of the antifraud provisions of the Idaho Securities Act. The omissions of Respondents include, but are not limited to, the following:

a. Respondents failed to disclose material information regarding PAYSTAR and ITI, including the existence of a securities related Cease and Desist Order issued by the Pennsylvania Securities Commission.

b. Respondents failed to disclose that the products being offered had not been reviewed and approved by Smith's employing broker-dealer.

c. Respondents failed to disclose that Smith's employing broker-dealer prohibits its agents from offering and selling viatical investments.

d. Respondents failed to disclose that Smith's employing broker-dealer was unaware of and had not approved Smith's "outside" investment related activities until Complainant made them aware of such activities.

e. Respondents failed to disclose the risks associated with the investments being offered.

f. Respondents failed to disclose the amounts and types of compensation that might accrue to Respondents in connection with the offer and sale of these investments.

g. Respondents failed to disclose that Smith was operating in violation of the Rules Pursuant to the Idaho Securities Act, in that, Smith had not provided prior written notice of his outside business activities to his employing broker-dealer as required under Rule 80.

14. Respondents have violated Idaho Code §30-1403(2).

COUNT FOUR

15. In connection with the offer or sale of securities, Respondents misrepresented material facts necessary in order to make the statements made, in the light of the

circumstances under which they were made, not misleading in violation of the antifraud provisions of the Idaho Securities Act. The misrepresentations of Respondents include, but are not limited to, the following:

a) In conjunction with the PAYSTAR phone investment, Respondents represented that 100% of an investors funds would be used to acquire phone equipment.

16. Respondents have violated Idaho Code §30-1403(2).

THEREFORE, PURSUANT TO IDAHO CODE §30-1442(2), IT IS HEREBY ORDERED THAT RESPONDENTS, THEIR AGENTS AND EMPLOYEES IMMEDIATELY CEASE AND DESIST FROM:

A. Selling or offering to sell any nonexempt securities in any form in the State of Idaho until such time as the securities have been registered with the Department of Finance in accordance with Title 30, Chapter 14, Idaho Code.

B. Selling or offering to sell any nonexempt securities in any form in the State of Idaho until such time as Respondents have registered as broker-dealers or salesmen for a broker-dealer or issuer with the Department of Finance in accordance with Title 30, Chapter 14, Idaho Code.

C. While engaged in or in connection with the offer, or sale, of any security in the State of Idaho:

(1) Employing any device, scheme or artifice to defraud any purchasers of securities in Idaho;

(2) Making any untrue statement of material fact or omitting to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading;

(3) Engaging in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person;

D. Aiding, abetting, counseling, inducing or causing any person to engage in any of the types of conduct described in paragraphs A, B, or C above.

IT IS FURTHER ORDERED, PURSUANT TO IDAHO CODE §30-1442(2)(a), THAT RESPONDENTS REPAY ALL CONSIDERATION THAT HAS BEEN RECEIVED FROM IDAHO INVESTORS IN CONNECTION WITH THE OFFER AND SALE OF THESE SECURITIES.

IT IS FURTHER ORDERED, PURSUANT TO IDAHO CODE §30-1442(2)(b), THAT RESPONDENTS PAY A CIVIL PENALTY TO THE DEPARTMENT IN THE AMOUNT OF ONE THOUSAND DOLLARS (\$1,000) EACH.

17. YOU ARE NOTIFIED that this Cease and Desist Order is a final order of the Department of Finance. In accordance with Idaho Code §30-1442(2), you are hereby notified of the right to a hearing before the Department of Finance on the Cease and Desist Order. You may file a motion for reconsideration of this Cease and Desist Order or a request for hearing within fourteen (14) days of the service of this order. The Department will dispose of the petition for reconsideration within twenty-one (21) days of its receipt, or the petition will be considered denied by operation of law. Idaho Code §67-5246(4). Any such motion for reconsideration or request for hearing must be in writing, addressed to:

Marilyn T. Chastain
Securities Bureau Chief
Department of Finance
P.O. Box 83720
Boise, ID 83720-0031

A copy of the motion or request for hearing must also be sent to the Department's counsel, at the address listed on the front of this Cease and Desist Order.

18. If a motion for reconsideration or request for hearing is timely filed, you will be notified of the date, time and place of the hearing, as well as the name of the presiding officer. At the hearing you will be entitled to enter an appearance, introduce evidence, examine and cross-examine witnesses, make arguments and generally participate in the conduct of the proceedings. If you so desire, you may also be represented by legal counsel at your own expense.

19. Any hearing and subsequent proceedings will be in accordance with the provisions of the Idaho Administrative Procedures Act (Chapter 52, Title 67, Idaho Code).

20. Pursuant to Idaho Code §§67-5270 and 67-5272, any party aggrieved by this final order may appeal this final order to district court by filing a petition in the district court of the county in which:

- a. A hearing was held,
- b. The final agency action was taken,
- c. The party seeking review of the order resides, or
- d. The real property or personal property that was the subject of the agency action is located.

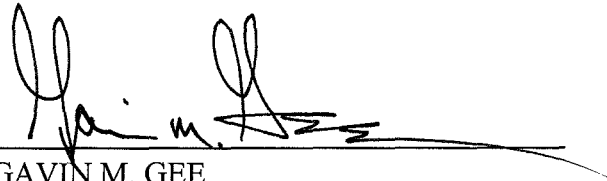
21. An appeal must be filed within twenty-eight (28) days (a) of the service date of this final order, (b) of an order denying a petition for reconsideration, or (c) the failure within twenty-one (21) days to grant or deny a petition for reconsideration, whichever is

later. Idaho Code §67-5273. The filing of an appeal to district court does not itself stay the effectiveness or enforcement of the order under appeal.

22. This Cease and Desist Order is necessary and appropriate and in the public interest and for the public protection.

IT IS SO ORDERED.

DATED this 27th day of July, 2000.

A handwritten signature in black ink, appearing to read 'Gavin M. Gee', written over a horizontal line.

GAVIN M. GEE
Director
Department of Finance