

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) Order Number S-03-187-03-SC01
Whether there has been a violation of the)
Securities Act of Washington by:) STATEMENT OF CHARGES AND NOTICE
) OF INTENT TO ENTER ORDER TO CEASE
CLS Financial Services, LLC and Gerald) AND DESIST AND TO IMPOSE A FINE
Clark Vanhook)
Respondents)

THE STATE OF WASHINGTON TO: CLS Financial Services, LLC and Gerald
Clark Vanhook

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, CLS Financial Services, LLC and Gerald Clark Vanhook, have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 to cease and desist from such violations and to impose a fine against Gerald Clark Vanhook pursuant to RCW 21.20.395. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

I. RESPONDENTS

1. CLS Financial Services, LLC (“CLS”) is a Washington limited liability company that had its principal place of business at 4720 200th Street SW in Lynnwood, Washington. From 1989 through 2003, CLS was engaged in the business of offering and selling notes secured by real property. In 2004, CLS filed for Chapter 11 bankruptcy.

2. Gerald Clark Vanhook (“Vanhook”) is the managing member of CLS.

1 II. EXCHANGE OFFER AND MERGER TRANSACTION

2 As of January 1, 2002, CLS Financial Services, Inc. offered to exchange debentures
3 issued by CLS Financial Services, Inc. for Class 2 membership units of CLSFS, LLC, which
4 later became CLS Financial Services, LLC. More than 50 investors, many of them Washington
5 investors, exchanged approximately \$4 million worth of debentures for Class 2 membership
6 units. At the same time, approximately \$3 million worth of PSIG-One, LP limited partnership
7 interests were purportedly merged into Class 2 membership units of CLS.
8

9 The Class 2 membership unit holders did not participate in the management of CLS. The
10 Class 2 members were relying upon the management of CLS to generate profits and to provide a
11 return on their investment.

12 III. MISREPRESENTATIONS AND OMISSIONS REGARDING THE EXCHANGE OFFER

13 In connection with the exchange offer of debentures for Class 2 membership units, CLS
14 and Vanhook each represented that CLS would continue to pay principal and interest to
15 debenture holders as if they continued to hold debentures and that the only change would be that
16 dividends would be paid quarterly, rather than monthly. CLS and Vanhook each represented that
17 the income of CLS would increase nearly ten times if the exchange offer were approved. CLS
18 and Vanhook each represented that the exchange offer would increase profits and would provide
19 sufficient liquidity to fund a sinking fund for liquidating the CLS membership units.
20

21 CLS and Vanhook each failed to disclose that CLS was not creating any new sources of
22 income through its exchange offer. CLS and Vanhook each failed to disclose that CLS would no
23 longer be required to repay its debenture obligations and would not be required to repurchase its
24 Class 2 membership units. CLS and Vanhook each failed to disclose that CLS was not creating
25 or funding a “sinking fund” for repurchasing its Class 2 membership units. CLS and Vanhook

1 each failed to disclose that CLS did not have the ability to repay its debenture obligations or to
2 repurchase its Class 2 membership units.

3 **IV. FAILURE TO DELIVER DISSENTERS' NOTICE TO PSIG-ONE, LP INVESTORS**

4 In connection with the merger between PSIG-One, LP and CLSFS, LLC, Vanhook and
5 CLS each failed to deliver a written notice of dissenters' rights to PSIG-One, LP investors.
6 Vanhook and CLS each failed to disclose that investors were entitled by statute to decide
7 whether to accept dissenters' rights.
8

9 **V. UNREGISTERED OFFERING OF SECURITIES**

10 CLSFS, LLC was not registered to offer or sell its securities in the state of Washington.

11 Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:

12 **CONCLUSIONS OF LAW**

13 **I.**

14 The offer or sale of the CLS limited liability company membership interests described in
15 Tentative Finding of Fact II constitutes the offer or sale of a security as defined in RCW
16 21.20.005(10) and (12).

17 **II.**

18 As described in Tentative Findings of Fact IV and V, the exchange offer relating to the
19 merger between PSIG-One, LP and CLSFS, LLC was made in violation of RCW 21.20.140
20 because no registration for the sale of CLSFS, LLC securities was on file with the Securities
21 Administrator.
22

23 **III.**

24 The offer and sale of CLS membership units was made in violation of RCW 21.20.010
25 because, as described in Tentative Findings of Fact III and IV, CLS and Vanhook each made

1 untrue statements of material fact or omitted to state material facts necessary in order to make the
2 statements made not misleading.

3 **NOTICE OF INTENT TO ORDER RESPONDENTS TO CEASE AND DESIST**

4 Based on the above Tentative Findings of Fact and Conclusions of Law, the Securities
5 Administrator intends to order that CLS Financial Services, LLC, Gerald Clark Vanhook and
6 their agents and employees shall each cease and desist from violations of RCW 21.20.010 and
7 RCW 21.20.140.
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9 **NOTICE OF INTENT TO IMPOSE A FINE**

10 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and
11 Conclusions of Law, the Securities Administrator intends to order that Gerald Clark Vanhook
12 shall be liable for and shall pay a fine of \$50,000.

13 **AUTHORITY AND PROCEDURE**

14 This Statement of Charges is entered pursuant to the provisions of ch. 21.20 RCW and is
15 subject to the provisions of ch. 34.05 RCW. The respondents, CLS Financial Services, LLC and
16 Gerald Clark Vanhook, may each make a written request for a hearing as set forth in the
17 NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING
18 accompanying this order.
19

20 If a respondent fails to make a timely hearing request, the Securities Administrator
21 intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and to
22 enter a permanent order to cease and desist from violations of the Securities Act as to that
23 respondent.

24 If Gerald Clark Vanhook fails to make a timely hearing request, the Securities
25 Administrator intends to enter an order imposing the \$50,000 fine and may file a certified

1 copy of the order in superior court and proceed to collect the fine in accordance with RCW
2 21.20.395.

3 Dated this 6 day of July, 2004
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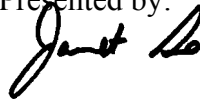
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8 MICHAEL E. STEVENSON
Securities Administrator

9 Approved by:

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11 Martin Cordell
12 Chief of Enforcement

Presented by:

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14 Janet So
15 Financial Legal Examiner
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