

STATE OF ILLINOIS  
SECRETARY OF STATE  
SECURITIES DEPARTMENT

\_\_\_\_\_  
IN THE MATTER OF: ST. PAUL FILM FOUNDATION )  
its board members, agents, employees, affiliates, )  
successors and assigns. )  
\_\_\_\_\_ )

FILE NO. 0200414

ORDER OF PROHIBITION

TO RESPONDENT: St. Paul Film Foundation  
PO Box 38  
Blaine, WA 98231

St. Paul Film Foundation  
288 Martin Street  
Blaine, WA 98230

Stephen Jones  
PO Box 38  
Blaine, WA 98231

Stephen Jones  
288 Martin Street  
Blaine, WA 98230

WHEREAS, a Temporary Order of Prohibition was issued by the Secretary of State on June 24, 2003 temporarily prohibiting Respondent from offering or selling securities in the State of Illinois until further order of the Secretary of State

WHEREAS, pursuant to Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act"), the failure to request a hearing within thirty (30) calendar days of the entry of a Temporary Order shall constitute an admission of any facts alleged therein and constitute a sufficient basis to make the Temporary Order final.

WHEREAS, Respondent has failed to request a hearing on the matters contained in the Temporary Order within thirty (30) calendar days of the entry of said Temporary Order and Respondent is hereby deemed to have admitted the facts alleged in the said Temporary Order.

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WHEREAS, the Secretary of State, by and through his duty authorized representatives, has adopted the Findings of Fact contained in the said Temporary Order as the Secretary of State's Final Findings of Fact as follows:

1. That St. Paul Film Foundation (hereinafter "Foundation" or collectively with "Jones," "Respondents.") is a not for profit film production foundation with known addresses at 288 Martin Street, Blaine, WA 98230, and PO Box 38, Blaine, WA. 98231.
2. That Stephen Jones ("Jones" or collectively with Foundation, "Respondents") is or was the president and member of the board of St. Paul Film Foundation, with last known addresses at 288 Martin Street, Blaine, WA 98230, and PO Box 38, Blaine, WA. 98231.
3. That between about July and October 1997 one or more Illinois residents responded ("Responses") to a mailing received in Illinois, and /or advertisements in the Observer and the Catholic Post, which solicited prospective investors for the production of religious films by Respondent Foundation to call the number listed in the advertisement.
4. That between about July and October 1997, following up on the Responses, Respondents caused to be sent to one or more Illinois residents an Information Memorandum ("Offering Document") for Saint Paul Film Foundation Notes ("Offering"), along with a prepaid airbill. A few days later, a representative of Respondent Foundation also called said Illinois residents ("Telephone Call"), and reiterated the offer to sell such Notes.
5. That accompanying the Offering Document was a letter acknowledgement ("Acknowledgment") and a letter from Father Thomas Nicholson, Respondent's "spiritual adviser, to tell you why he feels so confident about his investment in St. Paul Bonds." ("Priest Letter #1")
  - a. In the Acknowledgment Respondents reminded Investors of "wonderful Catholic films like *Going My Way* and *The Song of Bernadette* and informed them that, "In the long history of movie- making, very few films have failed to make money for their investors, especially INDEPENDENT films where the budgets are tightly controlled and the costs low." – "Because there are no studio heads, talent agents and a dozen middle men to be paid millions of dollars before investors see a single cent, we can produce films at extraordinarily low cost and thus offer investors the highest possible return at low risk." Citing Foundation's current project "[St.] Patrick" as a perfect example, Respondents maintained the entire budget for [St.] Patrick was "less than ONE TENTH the cost of the typical Hollywood movie" with no sacrifice in skill or quality. "It's simple. Cut out the middle-men and the big salaries and movie making suddenly becomes a very low risk proposition indeed." Signed: Stephen Jones, President.

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- b. In Priest Letter #1 "Father Tom" in an undated letter assured Investors, "I am certain this is a wonderful chance for Catholic families like yours to safely build equity while achieving great things for our children and our Faith."
6. That separately, but in tandem with Respondent's mailing of the Offering Document, Acknowledgment and Priest Letter #1, one or more Illinois residents were sent a letter ("Priest Letter #2") touting investment in St. Paul Bonds as, "one of the best financial and spiritual investments ANY Catholic can make." The Letterhead stated "Father Mark Merz, St. Catherine of Sienna Parish, 7070 Somerled Avenue, Montreal, PQ H4V IV9," and the Letter was signed "F. Mark Merz."
7. That between about August and October 1997, following receipt of the Offering Document, Telephone Call, Acknowledgment and Priest Letters 1 & 2, one or more Illinois residents ("Investors") filled in said Offering Document and returned it along with payment to Respondent Foundation by means of the prepaid airbill.
8. That between about August and October 1997, the Investors purchased two-year notes yielding 10.55% non-compounding interest per annum and payable quarterly, and five year notes yielding 10.55% with compounded annual interest to be paid at the end of the Term ("Investments"), investing an aggregate amount of \$18,000. The proceeds of the notes were to be used to finance production of "wholesome Catholic films," like *[St.] Patrick*, which was then "currently entering production."
9. That notwithstanding the "low risk" and rosy promotion, subsequent to the Investments Respondent Foundation made no films whatsoever. Payment of the quarterly interest payments on the non-compounding notes ceased after March 1999, and Respondent Foundation defaulted on both the two-year and the five-year notes.
10. That despite Respondent Foundation's continued inactivity in terms of actually producing a film - any film - and the fact it was about to default on its quarterly interest payments:
  - a. On December 17, 1998, Respondents sent a letter to the Investors that stated, "while we continue to press forward to make this project (*[St.] Patrick*) a reality, we will be adding other productions to the roster." Signed: Stephen Jones, President.
  - b. Then on March 8, 1999, Respondents sent the Investors a letter updating the status of the *[St.] Patrick* project: "The Foundation has already made considerable advances toward the production of *[St.] Patrick* by this time, including the design and manufacture of many costumes, work with a major accounting firm and government officials in Ireland towards

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arranging Section 35 financing, the completion of the script and shooting schedule and selection of principal locations.” Respondents had also structured a long-term plan built around an intermediary project, a film called *Waters of the Wolf*, based on Blessed Juan Diego’s encounter with Our Lady of Guadalupe in 16<sup>th</sup> century Mexico. This film would be smaller in scale than *[St.] Patrick*. Respondent Foundation would be co-producing it with “St. Clare Film Fund, a Canadian organization with mission objectives similar to those of the Foundation,” and Respondents expected it would generate the revenue required to complete *[St.] Patrick* and to repay the investors. “Unfortunately we regret that in order for this plan to succeed, it is necessary for the Foundation to suspend all interest payments to its investors until further notice, including the repayment on principal owing on bonds coming due starting this May, 1999.” Signed: Stephen Jones, President. What Respondents neglected to mention was that its new co-producer St. Clare Film Fund shared more than “mission objectives” with Respondents. They also shared the same address at P.O. Box 38, Blaine WA.

- c. November 10, 1999 Respondents updated the Investors on Foundation’s intent to switch from *[St.] Patrick* to *Waters of the Wolf*, now renamed *Prince of Eden*, and informed them that their fundraising website was located at <http://www.princeofeden.com/>. The letter went on to detail various woes it had encountered, not least of which was that the Irish co-producer on *[St.] Patrick* had “launched his own *[St.] Patrick* for television release, pilfering the Foundation’s research and project development.” Signed: Stephen Jones.
- d. December 30, 1999, Respondents sent “Bond Statement” to the Investors with tax information and a book, “containing the findings of the Pontifical Commission on Juan Diego and his encounter with the Virgin of Guadalupe!” “The book itself will be part of the donor campaign promotion and will also serve as a working document for the *Prince of Eden* screenplay.” Signed: Stephen Jones, President.
- e. February 7, 2000 Respondents sent the Investors a letter with information about “1099s and your investment.” Regarding the financial restructuring, Respondent Foundation had secured a co-producer for *Prince of Eden*.
- f. September 12, 2000 Respondents sent the Investors a letter with “some positive news to share with you about our operations.” Among other things, they were still considering whether to sue Fox and the producers of the television *[St.] Patrick* on behalf of the investors. And to bypass the halt to its operations due to its heavy liabilities, “the Foundation has sought to rely on the work of co-producers to complete the film, *Prince of Eden*, free of the Foundation’s debt burden.” Instead, the Foundation was participating in the new project as a co-producer with “creative and sweat equity in terms of the treatment, script and additional production

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expertise." Respondents went on to propose, "the balance of the investments could be retired with the realization of profits from *Prince of Eden*." Signed: Stephen Jones, President. Just how Respondent Foundation would be able to retire its heavy debt obligations and repay the Investors through "sweat equity" profits from a film financed by "donors" -- and that essentially now belonged to their "co-producers" -- is simply not explained.

11. That the September 12, 2000 letter was the last communication Respondents sent to the Investors. Shortly after that, its telephone was disconnected and mail returned to sender.
12. That the conduct at paragraphs 5-6 misrepresented the risks of investing in film production to the Investors and operated as a fraud or deceit on the upon the purchaser or seller thereof.
13. That the conduct described in paragraphs 9-10 constitutes lulling conduct designed to distract the Investors with promises of false hope from the fact that they had been swindled, and is a continuing course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof.
14. That the activities described in paragraphs 2, 3, and 4 above constitute the offer and sale of a security and therefore a security as those terms are defined in Sections 2.1, 2.5, and 2.5a of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act").
15. That Section 12.F of the Act provides, *inter alia*, that it shall be a violation for any person to engage in any transaction, practice or course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof.

**WHEREAS**, the Secretary of State, by and through his duly authorized representative, has adopted the Conclusions of Law contained in the said Temporary Order as the Secretary of State's Conclusion of Law as follows:

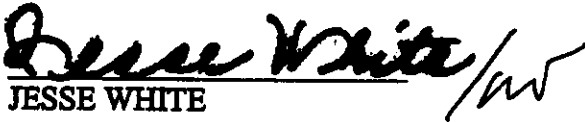
16. That by virtue of the foregoing Respondents violated Section 12.F of the Act.

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NOW THEREFORE IT IS HEREBY ORDERED THAT: pursuant to the authority granted by Section 11.F of the Act, Respondent Stephen Jones and Respondent St. Paul Film Foundation, its board members, agents, affiliates, successors and employees, are permanently PROHIBITED from offering or selling securities in the State of Illinois.

Dated: This 11<sup>th</sup> day of August 2003.

  
JESSE WHITE  
Secretary of State  
State of Illinois

**NOTICE:** Failure to comply with the terms of this Order shall be a violation of Section 12.d of the Act. Any person or entity who fails to comply with the terms of this Order of the Secretary of State, having knowledge of the existence of this Order, shall be guilty of Class 4 felony.

This is a final order subject to administrative review pursuant to the Administrative Review Law, 735 ILCS 5/3-101 et seq. And the Rules and Regulations of the Illinois Securities Act (14 Ill. Admin. Code, Ch. I, Sec. 130.1123). Any action for judicial review must be commenced within thirty-five (35) days from the date a copy of this Order is served upon the party seeking review.

Attorney for the Secretary of State:  
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