

DISCIPLINARY ACTIONS

Disciplinary Actions Reported For January

NASD Regulation, Inc. (NASD RegulationSM) has taken disciplinary actions against the following firms and individuals for violations of National Association of Securities Dealers, Inc. (NASD[®]) rules; federal securities laws, rules, and regulations; and the rules of the Municipal Securities Rulemaking Board. Unless otherwise indicated, suspensions will begin with the opening of business on Monday, January 19, 1998. The information relating to matters contained in this *Notice* is current as of the end of December 23.

Firm Expelled, Individual Sanctioned

S.C. Costa Company (Tulsa, Oklahoma) and **Steven C. Costa (Registered Principal, Tulsa, Oklahoma)** submitted a Letter of Acceptance, Waiver and Consent pursuant to which they were fined \$100,000, jointly and severally. The firm was expelled from NASD membership and Costa was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, the respondents consented to the described sanctions and to the entry of findings that the firm, acting through Costa, failed to exercise reasonable and proper supervision over an individual.

Firm Expelled

M.G.S.I. Securities, Inc. (Houston, Texas) submitted an Offer of Settlement pursuant to which the firm was expelled from NASD membership. Without admitting or denying the allegations, the firm consented to the described sanction and to the entry of findings that it recommended and sold highly volatile, highly complex Collateralized Mortgage Obligation (CMO) derivatives to a public customer, contrary to the customer's stated investment objectives and needs. The findings also stated that the firm failed to disclose to the cus-

tommer the unsuitability of the recommended investments and made numerous material misrepresentations and material omissions of fact to the customer in connection with the recommendation. The NASD also found that the firm failed to implement, maintain, and enforce adequate supervisory procedures.

Firm And Individual Fined

City Securities Corporation (Indianapolis, Indiana) and **James Allen Merten (Registered Principal, Zionsville, Indiana)** were fined \$15,000, jointly and severally. The National Business Conduct Committee (NBCC) imposed the sanction following review of a Chicago District Business Conduct Committee (DBCC) decision. The sanction was based on findings that the firm, acting through Merten, failed adequately to supervise an individual. In addition, the firm allowed an individual to engage in selling option contracts without proper registration.

Firm Fined

C.P. Baker & Company, Ltd. (Boston, Massachusetts) submitted a Letter of Acceptance, Waiver and Consent pursuant to which the firm was fined \$10,000. Without admitting or denying the allegations, the firm consented to the described sanction and to the entry of findings that it held, on behalf of a customer account, unhedged short position contracts that exceeded the application position limit. The findings also stated that the firm failed to establish, maintain, and enforce adequate written supervisory procedures reasonably designed to achieve compliance with the applicable securities laws and regulations concerning the NASD's option position limit rules.

Individuals Barred or Suspended

James Adams (Associated Person, Littleton, Colorado) submitted an Offer of Settlement pursuant to which he was fined \$313,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Adams consented to the described sanctions and to the entry of findings that he made improper use of customer securities and funds totaling \$62,422.14 by transferring the amount to an account over which he exercised control and/or ownership without the customer's authorization.

Max Curt Altolaguirre (Registered Representative, Bellerose, New York) was fined \$50,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Altolaguirre engaged in acts of misrepresentations, forgery, falsification of records, and improper use of customer funds.

Michael Allen Aragon (Registered Representative, Newport Beach, California) was fined \$20,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Aragon failed to respond to NASD requests for information.

Jose Antonio Caballero (Registered Representative, Allen, Texas) was fined \$40,000, barred from association with any NASD member in any capacity, and ordered to requalify by exam. The sanctions were based on findings that Caballero received a \$9,813.11 check from a public customer for investment purposes and failed to invest such monies on behalf of the customer. Caballero also failed to respond to NASD requests to appear for an on-the-record interview.

Jane E. Cipriani (Registered Representative, Baltic, Connecticut) submitted a Letter of Acceptance, Waiver and Consent pursuant to which she was fined \$6,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Cipriani consented to the described sanctions and to the entry of findings that she forged the names of public customers onto insurance disbursement forms to obtain checks totaling \$1,021.85. The NASD found that Cipriani converted the funds to her own use and benefit without the customers' knowledge or consent.

Miguel Angel Cruz (Registered Representative, Shelby Township, Michigan) was fined \$30,000, suspended from using sales literature and advertisements for one year, and required to file and obtain from the NASD Advertising Department a "no objection" letter concerning all of his advertisements and sales literature prior to use. In addition, Cruz must pay \$6,544.12 in restitution to customers and requalify by exam as an investment company and variable contracts representative. The NBCC imposed the sanctions following appeal of a Chicago DBCC decision. The sanctions were based on findings that Cruz made unsuitable recommendations and misrepresentations of material facts to public customers in connection with sales of variable life insurance policies. In addition, Cruz circulated radio advertisements to the public that were misleading and did not comport with the NASD's advertising rule. Cruz also engaged in outside business activities without providing prompt written notice to his member firm.

John Gregory D'Angelo (Registered Principal, Newport Beach, California) submitted an Offer of Settlement pursuant to which he was suspended from association with any NASD member as a financial and

operations principal for 30 days. Without admitting or denying the allegations, D'Angelo consented to the described sanction and to the entry of findings that a member firm, acting through D'Angelo, failed to compute accurately the amount required to be deposited into the Special Reserve Bank Account for the Exclusive Benefit of Customers. The findings also stated that D'Angelo, acting on behalf of a member firm, failed to maintain possession and control of all fully paid for customer securities.

Gregory D. Dial (Registered Representative, Baton Rouge, Louisiana) was fined \$65,000, barred from association with any NASD member in any capacity, and ordered to pay \$30,590.24 in restitution to a member firm. The sanctions were based on findings that Dial exercised discretion in the account of public customers without having obtained prior written authorization from the customers and prior written acceptance of the account as discretionary by his member firm. Dial also recommended and engaged in purchase and sale transactions in the account of public customers without having reasonable grounds for believing that these recommendations and resultant transactions were suitable for the customers on the basis of their financial situation, investment objectives, and needs. In addition, Dial failed to properly indicate on 14 trade order tickets, for transactions in mutual funds, that such transactions involved mutual fund switches, thus causing his member firm's books and records to be inaccurate. Furthermore, Dial failed to respond timely and completely to NASD requests for information.

Frank DiGiovanni (Registered Representative, Elmont, New York) submitted an Offer of Settlement pursuant to which he was fined \$20,000 and barred from association

with any NASD member in any capacity. Without admitting or denying the allegations, DiGiovanni consented to the described sanctions and to the entry of findings that he failed to respond to NASD requests for information.

Vincent R. DiGiulio (Registered Principal, Warwick, Rhode Island) was fined \$90,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that DiGiulio engaged in private securities transactions outside the regular scope of his employment with his member firm without giving prior written notice to his member firm. DiGiulio also failed to respond to NASD requests for information.

Ezenwa Myke Ekenyere (Registered Representative, Brooklyn, New York) was fined \$50,000, barred from association with any NASD member in any capacity, and ordered to disgorge \$40,918.73. The sanctions were based on findings that Ekenyere arranged to have an impostor take the Series 7 exam on his behalf. Ekenyere also failed to respond to NASD requests for information and to appear for an on-the-record interview.

Mark R. Fabello (Registered Representative, Sheridan, Oregon) submitted an Offer of Settlement pursuant to which he was fined \$20,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Fabello consented to the described sanctions and to the entry of findings that he failed to respond to NASD requests for information.

Samuel Feratovic (Registered Representative, Brooklyn, New York) was fined \$50,000, barred from association with any NASD member in any capacity, and required to pay dis-

gorgement. The sanctions were based on findings that Feratovic arranged to have an impostor take the Series 7 exam on his behalf. Feratovic also failed to respond to NASD requests to appear for an on-the-record interview.

John Edward Flanagan, Jr. (Registered Representative, Hauppauge, New York) submitted an Offer of Settlement pursuant to which he was fined \$35,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Flanagan consented to the described sanctions and to the entry of findings that he affixed the signatures of public customers to applications for the purchase of variable contracts and to variable annuity surrender forms without the authorization or consent of the customers. The findings also stated that Flanagan purchased annuities for the accounts of public customers and effected the surrender of the annuities without the prior authorization and consent of the customers. Furthermore, the NASD found that Flanagan failed to respond to NASD requests for information and appear at an on-the-record interview.

Del Brooks Gieche (Registered Representative, Imlay City, Michigan) was fined \$180,000, barred from association with any NASD member in any capacity, and required to pay \$32,039.65 in restitution. The sanctions were based on findings that Gieche withdrew \$32,039.65 from the securities account of a public customer without the customer's knowledge or consent and used the proceeds for some purpose other than for the benefit of the customer. Gieche also failed to respond to NASD requests for information.

Richard L. Goodrich (Registered Representative, San Diego, California) was fined \$20,000 and barred

from association with any NASD member in any capacity. The sanctions were based on findings that Goodrich failed to respond to NASD requests for information.

Peter E. Gradwohl (Registered Representative, Montlake Terrace, Washington) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined \$20,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Gradwohl consented to the described sanctions and to the entry of findings that he accepted \$50,000 from public customers intended for investment in securities. The findings stated that Gradwohl failed to establish an account for the customers, failed to use the funds for their intended purposes, and instead, used the funds for his own purposes.

Tazeem Hasham (Registered Representative, Kirkland, Washington) submitted an Offer of Settlement pursuant to which she was fined \$20,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Hasham consented to the described sanctions and to the entry of findings that she failed to respond to NASD requests for information.

Anthony Wayne Heuermann (Registered Representative, Spring, Texas) was fined \$120,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Heuermann effected private securities transactions and failed to provide written notice to his member firm. Furthermore, Heuermann engaged in the investment banking business, but failed to register with the NASD in the category of registration appropriate to the function he performed. Heuermann also failed to respond to NASD requests for information.

Michael J. Hewitt, Jr. (Registered Representative, Linwood, Michigan) was fined \$95,000, barred from association with any NASD member in any capacity, and ordered to pay \$15,081 in restitution to a member firm. The sanctions were based on findings that Hewitt purchased, for his combined assets program account at his member firm, stock index put option contracts totaling \$9,616 and failed to pay his member firm for the purchase. Furthermore, Hewitt withdrew \$5,465 from his account at his member firm when he had insufficient funds in the account and used the funds for some purpose other than for the benefit of his member firm. Hewitt also failed to respond to NASD requests for information.

Eugene Gerome Johnson, II (Registered Representative, Waukegan, Illinois) was fined \$25,000, barred from association with any NASD member in any capacity, and ordered to pay \$300 in restitution. The sanctions were based on findings that Johnson obtained \$300 from a public customer intended for the purchase of an insurance policy, failed to follow the customer's instructions, and used the funds for some purpose other than the benefit of the customer. Johnson also failed to respond to NASD requests for information.

John F. Keenan (Registered Representative, Warwick, Rhode Island) was fined \$90,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Keenan engaged in private securities transactions outside the regular scope of his employment with his member firm without giving prior written notice to his member firm. Keenan also failed to respond to NASD requests for information.

David A. Leonard (Registered Representative, Exeter, New Hampshire) was fined \$30,000 and

barred from association with any NASD member in any capacity. The sanctions were based on findings that Leonard withheld and misappropriated to his own use and benefit policyholder funds totaling \$2,000. Leonard also failed to respond to NASD requests for information.

Dean James Liakos (Registered Representative, Rego Park, New York) was fined \$50,000, barred from association with any NASD member in any capacity, and ordered to disgorge \$105,419.36. The sanctions were based on findings that Liakos arranged to have an impostor take the Series 7 exam on his behalf. Liakos also failed to respond to NASD requests for information.

John L. Lopez (Registered Representative, Marietta, Georgia) was fined \$5,000, suspended from association with any NASD member in any capacity for six months, and ordered to requalify by exam as an investment company and variable contracts products representative. The sanctions were based on findings that Lopez forged the signature of a registered representative on a variable annuity application, suitability questionnaire and disclosure form for a public customer. Lopez also failed to respond to NASD requests for information.

Todd J. Loucks (Registered Representative, Oneonta, New York) was fined \$25,000 and suspended from association with any NASD member in any capacity for six months. The sanctions were based on findings that Loucks prepared and filed with his member firm a fictitious application wherein he forged the signature of a public customer on a variable annuity application without the customer's knowledge or consent.

Christos Margaritis (Registered Representative, Bayside, New York) was fined \$50,000, barred

from association with any NASD member in any capacity, and required to pay disgorgement. The sanctions were based on findings that Margaritis arranged to have an impostor take the Series 7 exam on his behalf. Margaritis also failed to respond to NASD requests to appear for an on-the-record interview.

Frank A. McCanham (Registered Representative, Columbus, Georgia) was fined \$5,000, suspended from association with any NASD member in any capacity for two years, required to requalify as a general securities representative, and required to pay restitution. The sanctions were based on findings that McCanham effected private securities transactions outside the regular course or scope of his employment with his member firm and failed to provide written notice to, or obtain approval from, his member firm.

McCanham's suspension began on February 14, 1995 and concluded on February 14, 1997.

Thomas W. Medici (Registered Representative, Macungie, Pennsylvania) was fined \$20,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Medici failed to respond to NASD requests for information.

Tony Hyung Park (Registered Representative, Mission Viejo, California) was fined \$20,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Park failed to respond to NASD requests for information.

David Grayland Pate, Sr. (Registered Representative, San Antonio, Texas) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined \$18,100 and suspended from association with any

NASD member in any capacity for two years. Without admitting or denying the allegations, Pate consented to the described sanctions and to the entry of findings that he participated in private securities transactions and failed to provide his member firm with written notice describing in detail the proposed transaction and his proposed role therein. The findings also stated that Pate was employed by or accepted compensation from another member firm as a result of business activity outside the scope of his relationship with his member firm, even though he had not provided prompt written notice to his member firm.

Kenneth Alan Rosenfield (Registered Representative, Mission Viejo, California) was fined \$20,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Rosenfield failed to respond to NASD requests for information.

Stephen Phillip Ross (Registered Representative, Agoura Hills, California) was fined \$20,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Ross failed to respond to NASD requests to appear for an on-the-record interview.

Scott A. Richards (Registered Representative, Los Angeles, California) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was suspended from association with any NASD member in any capacity for one year and required to requalify by exam as a general securities representative. Without admitting or denying the allegations, Richards consented to the described sanctions and to the entry of findings that he participated in private securities transactions without providing prior written notice to his member firm describing

the proposed transactions and his proposed role therein.

John N. Salerno (Registered Principal, Chicago, Illinois) was fined \$50,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Salerno purchased and sold securities for the account of a public customer without their knowledge or consent. Salerno also failed to respond to NASD requests for information.

Peter Adam Schur (Registered Representative, San Diego, California) submitted a Letter of Acceptance, Waiver and Consent pursuant to which he was fined \$5,000, suspended from association with any NASD member in any capacity for five business days, and required to requalify by exam as a general securities representative. Without admitting or denying the allegations, Schur consented to the described sanctions and to the entry of findings that he effected purchases of securities in the account of public customers without their knowledge or consent.

Susan A. Shackleton (Registered Representative, Woodland Hills, California) submitted an Offer of Settlement pursuant to which she was fined \$5,800 and suspended from association with any NASD member in any capacity for one month. Without admitting or denying the allegations, Shackleton consented to the described sanctions and to the entry of findings that she sent correspondence to the attorney of a public customer that was misleading. The findings also stated that Shackleton sent correspondence to the attorney of a public customer on the letterhead of a bank instead of her member firm.

Neville L. Sinclair (Registered Representative, Baltimore, Maryland) was fined \$20,000 and barred

from association with any NASD member in any capacity. The sanctions were based on findings that Sinclair failed to respond to NASD requests for information.

Andrew L. Solice (Registered Representative, Philadelphia, Pennsylvania) submitted an Offer of Settlement pursuant to which he was fined \$1,000 and suspended from association with any NASD member in any capacity for 15 business days. Without admitting or denying the allegations, Solice consented to the described sanctions and to the entry of findings that he failed to respond to NASD requests for information.

Gerald James Stoiber (Registered Representative, Mokena, Illinois) was fined \$450,000, suspended from association with any NASD member in any capacity for six months, and required to pay \$450,000 in restitution to public customers. However, the fine may be reduced by any amounts Stoiber pays in restitution to public customers. The Securities and Exchange Commission (SEC) affirmed the sanctions following appeal of a March 1996 NBCC decision. The sanctions were based on findings that Stoiber engaged in private securities transactions while failing to give prior written notice to, and obtain prior written approval from, his member firm to engage in such activities.

Stoiber filed a petition for judicial review in the U.S. Court of Appeals and the sanctions are not in effect pending consideration of the appeal.

Robert Joseph Sucarato (Registered Representative, Old Bridge, New Jersey) was fined \$20,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Sucarato failed to respond completely to NASD requests for information.

Gary P. Taylor (Registered Representative, Newbury, California) was fined \$663,167, barred from association with any NASD member in any capacity, and required to pay \$128,633.36 in restitution to public customers. The sanctions were based on findings that Taylor received checks totaling \$128,633.36 from public customers for the purchase of shares of common stocks. Taylor failed to purchase the stocks, cashed the checks, and converted the funds for his own use. Furthermore, Taylor fabricated confirmation notices in order to make it appear that purchases had been made on behalf of customers. In addition, Taylor failed to respond to NASD requests for information.

Individuals Fined

James Howard Stovesand (Registered Principal, Santa Barbara, California) submitted an Offer of Settlement pursuant to which he was fined \$10,000. Without admitting or denying the allegations, Stovesand consented to the described sanctions and to the entry of findings that he engaged in a course of conduct that resulted in the mishandling and/or misuse of his member firm's branch office budget. The NASD found that Stovesand directed another individual to pay salaries to non-registered individuals either from his own personal funds or deductions from his income and reimbursed the individual for the payment through directed commissions. Furthermore, the NASD determined that Stovesand effected the reimbursements by submitting false seminar expense receipts to his member firm.

Bruce Nairn Whitman (Registered Representative, Stamford, Connecticut) submitted an Offer of Settlement pursuant to which he was fined \$13,268, ordered to requalify by exam as a general securities representative, and ordered to pay \$15,550

in restitution to a public customer. Without admitting or denying the allegations, Whitman consented to the described sanctions and to the entry of findings that he executed numerous purchase and sale transactions in various securities without authorization from the respective account holder.

Decisions Issued

The following decisions have been issued by the DBCC and have been appealed to the NBCC as of December 31, 1997. The findings and sanctions imposed in the decision may be increased, decreased, modified, or reversed by the NBCC. Initial decisions whose time for appeal has not yet expired will be reported in the next *Notice to Members*.

Kunz & Cline Investment Management Inc. (Salt Lake City, Utah) and **Kevin D. Kunz (Registered Principal, Fruit Heights, Utah)** were fined \$30,000, jointly and severally. The firm was suspended from participation in any public or private offering of securities in the capacities of lead underwriter, primary placement, or sales agent until it retains an independent consultant to review its operational, compliance, and supervisory procedures pertaining to participation in such offerings in such capacities. Kunz was fined \$5,000, suspended from association with any NASD member in any principal capacity for one year, suspended from association with any NASD member in any capacity for one month, and required to requalify by exam as a principal.

The sanctions were based on findings that the firm, acting through Kunz, sold securities pursuant to private placement memoranda that contained material misrepresentations and omissions. The firm, acting through Kunz, also offered and sold securities that were neither registered nor

exempt from registration. Furthermore, the firm, acting through Kunz, made recommendations to purchase securities that were unsuitable for certain customers and permitted an unregistered person to recommend the securities and execute the transactions that resulted from those recommendations. In addition, Kunz compensated an unregistered person in connection with his participation in securities transactions.

The firm and Kunz have appealed this action to the NBCC and the sanctions are not in effect pending consideration of the appeal.

Brian Prendergast (Registered Representative, Engelwood, Colorado) was barred from association with any NASD member in any capacity. The sanction was based on findings that Prendergast acted as a securities broker without complying with the registration provisions of the federal securities law and induced and effected securities transactions by means of a deceptive and fraudulent device or contrivance. Prendergast also solicited transactions by using a private placement memorandum that contained materially misleading projections of returns, exaggerated claims, and misleading representations and omitted to disclose material information. In addition, Prendergast distributed sales literature that failed to conform to the standards for sales literature and placed an advertisement in a newspaper that failed to comply with requirements for advertisements. Furthermore, Prendergast failed to disclose to his member firm that he had established accounts at another member firm and failed to disclose to the other firm his association with his member firm. Prendergast also failed to respond to NASD requests for information.

Prendergast has appealed this action to the NBCC and the sanctions are

not in effect pending consideration of the appeal.

Complaints Filed

The following complaints were issued by the NASD. Issuance of a disciplinary complaint represents the initiation of a formal proceeding by the NASD in which findings as to the allegations in the complaint have not been made, and does not represent a decision as to any of the allegations contained in the complaint. Because these complaints are unadjudicated, you may wish to contact the respondents before drawing any conclusions regarding the allegations in the complaint.

SFI Investments, Inc. (New York, New York), Frank Joseph Fasano (Registered Principal, Summit, New Jersey), Kevin Maurice Smith (Registered Principal, Brooklyn, New York), and Jeffrey Barnett Bronfman (Registered Principal, Fort Lee, New Jersey) were named as respondents in an NASD complaint alleging that the firm, acting through Fasano, Smith, and Bronfman, engaged in a variety of improper trading practices, which included utilizing two customer accounts to serve as the firm's *de facto* trading accounts and executing more than 1,700 trades in those accounts over a six-month period; effecting fictitious transactions in those and other accounts; multiple violations of SEC Rule 15c3-1; and several violations of the firm's restriction agreement with the NASD. Further, the complaint alleges that the firm, acting through Fasano, permitted two individuals to function as general securities representatives without the benefit of NASD registration and failed to respond timely to several NASD requests for information. In addition, the firm, acting through Fasano, is alleged to have failed to adequately enforce its supervisory procedures and failed to detect and

prevent the violations alleged in the complaint.

Edward F. Escamilla (Registered Representative, Los Angeles, California) was named as a respondent in an NASD complaint alleging that he converted customer funds in the amount of \$1,000 to his own use and benefit. Specifically, the complaint alleged that a public customer gave Escamilla two money orders totaling \$1,000 for purposes of making an investment in a mutual fund. Instead of making the investment, Escamilla cashed the money orders and converted the funds. The complaint also alleged that Escamilla failed to respond to NASD requests for information.

Donald Turney (Registered Representative, Babylon Village, New York) was named as a respondent in an NASD complaint alleging he made material misrepresentations and omitted to disclose material information to members of the public in connection with the recommendation to purchase securities. Turney also is alleged to have projected the future price of a security to a member of the public without a reasonable basis for the projection and effected four transactions in customer accounts without the prior authorization and consent of the customers.

Michael C. Young (Registered Representative, Los Angeles, California) was named as a respondent in an NASD complaint alleging that he converted funds from the account of a bank customer while he was dually employed by the bank and an affiliated member firm. Young also is alleged to have converted \$9,100 from the bank customer's account to his own use and benefit without the knowledge or consent of the customer.

Firms Suspended

The following firms were suspended from membership in the NASD for failure to comply with formal written requests to submit financial information to the NASD. The actions were based on the provisions of NASD Rule 8210 and Article VII, Section 2 of the NASD By-Laws. The date the suspensions commenced is listed after the entry. If the firm has complied with the requests for information, the listing also includes the date the suspension concluded.

Amerivest Financial Group,
Woodland Hills, California
(November 25, 1997)

WM B Austin & Associates,
Moulins, France
(November 25, 1997)

Conservative Securities Company,
Colorado Springs, Colorado
(November 25, 1997)

Delco Securities Company,
Houston, Texas
(November 25, 1997)

Great American Securities,
Phoenix, Arizona
(November 25, 1997)

ZI Securities Corporation,
Dallas, Texas
(December 8, 1997)

Firm Suspended Pursuant To NASD Rule 9622 For Failure To Pay Arbitration Award

Greenway Capital Corporation, (n/k/a Cortlandt Capital Corporation), New York, New York

Individuals Whose Registrations Were Revoked For Failure To Pay Fines, Costs, And/Or Provide Proof Of Restitution In Connection With Violations

Charles S. Beck,
Chino Hill, California

Robert W. Campbell,
Tucker, Georgia

Charles M. Francis,
Staten Island, New York

Jerry A. Hurni, Jr.,
Farmington Hills, Michigan

Peter J. Matera, Jr.,
Brooklyn, New York

Richard B. Perry,
Southampton, Pennsylvania

Robert W. Vallair,
Houston, Texas

Individual Whose Registration Was Canceled/Suspended Pursuant To NASD Rule 9622 For Failure to Pay Arbitration Award

Jack Basile, Brooklyn, New York

21 Brokerage Firms and Bank Fined \$325,000 For Violating MSRB Rules

NASD Regulation and the Office of the Comptroller of the Currency (OCC) today announced that, as the result of coordinated investigations with the Securities and Exchange Commission (SEC), 21 brokerage firms and a division of a national bank have been fined a total of \$325,000 and censured for violating Municipal Securities Rulemaking Board (MSRB) rules that require disclosure to investors in municipal securities. NASD Regulation sanctioned the 21 brokerage firms and the OCC sanctioned the bank.

All 21 brokerage firms and the bank,

which neither admitted nor denied the allegations, were sanctioned for violating MSRB Rule G-36 by filing municipal securities underwriting documents late. Without the filings mandated by Rule G-36, investors lack easy access to key information about the issuer, including its ability to repay bonds and, in the case of an advance refunding, information about an escrow account that has been established.

Rule G-36 requires that the sole or managing underwriter of a municipal securities offering send the MSRB two copies of the final official statement within one business day of receiving the information from the issuer. In no case can the information be sent later than 10 business days after the final agreement to purchase, offer, or sell the securities. In the case of an advance refunding, the documents must be sent within five business days of the delivery of the securities. Investors can gain access to this important information about municipal securities through the MSRB's Municipal Securities Information Library.[®]

Eight of the 21 firms were also sanctioned, in certain instances, for failing to file required documents at all; and a separate group of eight of the 21 firms were also sanctioned for not properly mailing the documents to the MSRB—both of which are mandated by Rule G-36.

Eleven of the 21 firms and the bank were also sanctioned for not keeping records showing when they received required documents from the issuer, or when they sent those documents to the MSRB, as required by MSRB Rule G-8.

“Every investor has the right to the information Rule G-36 provides. Not supplying that critical disclosure, or making it available well after the fact, does not serve investors well.

As a result, it's very important that every municipal securities firm lives up to its responsibilities to keep investors informed,” said Mary L. Schapiro, NASD Regulation President.

“It is important that banks and securities firms alike provide the information required under municipal securities Rule G-36,” said Comptroller of the Currency Eugene A. Ludwig. “The OCC intends to make sure that every national bank that sells municipal securities provides the information that individual investors need to make informed decisions.”

NASD Regulation and the OCC thanked the SEC's Office of Compliance Inspections and Examinations for its assistance in bringing these cases.

The following firms were sanctioned and fined the indicated amounts by NASD Regulation:

Bear, Stearns & Co. Inc.
\$25,000

First of America Securities, Inc.
\$10,000

First Southwest Company
\$10,000

First Union Capital Markets Corp.
\$10,000

Goldman, Sachs & Co.
\$25,000

J.P. Morgan Securities Inc.
\$25,000

**Merrill Lynch, Pierce,
Fenner & Smith Inc.**
\$10,000

Miller, Johnson & Kuehn, Inc.
\$10,000

Morgan, Keegan & Co., Inc.
\$10,000

**Morgan Stanley & Co.,
Incorporated**
\$10,000

Oppenheimer & Co., Inc.
\$10,000

PaineWebber Incorporated
\$25,000

Piper Jaffray Inc.
\$10,000

PNC Capital Markets, Inc.
\$10,000

Prudential Securities Incorporated
\$25,000

Raymond James and Associates
\$10,000

Seattle-Northwest Securities Corp.
\$10,000

Smith Barney Inc.
\$25,000

Stone & Youngberg, LLC.
\$10,000

SunTrust Capital Markets, Inc.
\$10,000

Sutro & Co. Inc.
\$25,000

The following bank division was sanctioned and fined the indicated amount by the OCC:

**Commerce Capital, a division of
Commerce Bank, N.A.**
\$10,000

**NASD Regulation Issues Complaint
Against HGI, Maidstone Financial,
And Principals Of Both Firms;
Fraud And Illegal Profits Of \$16.2
Million Alleged**

NASD Regulation issued a complaint against HGI, Inc. (formerly known as The Harriman Group, Inc.), Maidstone Financial, Inc., and four principals of the two firms alleging fraud in connection with three public offerings, which resulted in more than \$16.2 million in illegal profits.

The complaint names HGI; Maidstone; and HGI's Vice President and Director, Brian Douglas Scanlon, and Secretary and Chairman, Mark Arthur Hanna. Maidstone's Chief Executive Officer and Chairman of the Board, Marshall Bernstein, and President, Stuart Litman, were also named.

The complaint alleges that, as underwriters of three securities, HGI and Maidstone made more than \$16.2 million in illicit profits, defrauding scores of investors in the process. The three securities are: Sims Communications, Inc., Natural Health Trends Corp., and International Cutlery, Ltd. The violations occurred in 1995, shortly after the commencement of trading in each security.

According to the complaint, the two firms, working through the four individuals, illegally profited by purchasing stock at below market prices to cover large short positions each firm had intentionally created in its inventories. In each offering, the firms purchased the covering shares from shareholders who had received their securities prior to the initial public offerings (IPOs) through private placements and bridge financing arrangements. In registration statements and amendments filed by the two firms with the SEC, the shares of these "selling shareholders" were restricted and therefore could not be

sold for up to two years after the IPO, unless the lead underwriter granted permission.

The complaint further alleges that both firms entered into private transactions with the "selling shareholders" to purchase their shares to cover the short positions in their inventories. The firms' undisclosed distribution of these securities violates federal securities laws and NASD rules.

As alleged, the two firms, acting through the four principals, engaged in fraud by failing to disclose the private transactions with the selling shareholders; the firms' plans to distribute the selling shareholders' securities to the public; and the receipt of unlawful underwriting compensation.

HGI, according to the complaint, made \$12 million in excessive and undisclosed underwriting compensation, and Maidstone Financial, Inc., received more than \$4.2 million in excessive and undisclosed underwriting compensation.

Neither firm currently operates a securities business. In June 1997, HGI (which was based in Jericho, N.Y.) filed to withdraw its membership from the NASD. In early December 1997, Maidstone (which was based in Manhattan) also filed to withdraw from the NASD. Scanlon left HGI in February 1997, and Litman left Maidstone in October 1996. Hanna remained at HGI until the firm closed its doors, and Bernstein remained at Maidstone until the firm filed to withdraw from the NASD earlier this month.

The issuance of a disciplinary complaint represents the initiation of a formal proceeding by the NASD in which findings as to the allegations in the complaint have not been made and does not represent a decision as to any of the allegations contained in

the complaint. Because this complaint is unadjudicated, you may wish to contact the respondents before drawing any conclusion regarding the allegations in the complaint.

Under NASD Regulation rules, the individuals and the firms named in the complaint can file a response and request a hearing before an NASD Regulation disciplinary panel. Possible sanctions include a fine, suspension, bar, or expulsion from the NASD.

NASD Regulation Bars Nicholas Rudi; Key Figure In Armacon Probe Also Censured And Fined For Failure To Cooperate

NASD Regulation announced that it has barred Nicholas A. Rudi, the former President and Financial Operations Principal of Armacon Securities Inc., for failing to cooperate with an NASD Regulation investigation. Rudi was also fined \$20,000 and censured.

The decision barring Rudi by NASD Regulation's National Business Conduct Committee (NBCC), the regulatory organization's appellate body, affirmed an August 1, 1997, decision by NASD Regulation's District Business Conduct Committee (DBCC) for District 9 (Philadelphia). Rudi appealed the initial decision to the NBCC. The bar is effective immediately.

Under NASD Regulation rules, all registered brokers are required to provide information on request. Failure to do so can result in sanctions, up to and including being barred from the securities industry. The NBCC decision added that failure to provide information fully and promptly undermines the NASD's ability to carry out its regulatory mandate.

In the course of NASD Regulation's investigation into whether Armacon violated federal securities laws or NASD Regulation rules by receiving illegal payments from brokerage firms or registered brokers, Rudi was called on to provide on-the-record

interviews with NASD Regulation investigators. To date, investigators have focused on Armacon's activities between 1991 and 1993.

In numerous attempts to arrange interviews with Rudi and his lawyer, specific dates and times for interviews with NASD Regulation were scheduled—and Rudi subsequently failed to appear at any of them. A full chronology of NASD Regulation's efforts to schedule an interview with Rudi is part of the NBCC's decision, which is publicly available.

Rudi registered with the NASD in February 1991. He was terminated from Armacon in May 1995, and has not worked in the securities industry since then. Shortly after receiving subpoenas from the Department of Justice and the SEC, Armacon voluntarily suspended its business activities in February 1995. NASD Regulation retains disciplinary jurisdiction over all registered brokers for two years after they leave the industry.

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