

Disciplinary and Other NASD Actions

REPORTED FOR JUNE

NASD® has taken disciplinary actions against the following firms and individuals for violations of NASD rules; federal securities laws, rules, and regulations; and the rules of the Municipal Securities Rulemaking Board (MSRB). The information relating to matters contained in this *Notice* is current as of the end of May 2003.

Firm Expelled

Millennium Securities Corp. (CRD #31695, New York, New York) submitted an Offer of Settlement in 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 employed a statutorily disqualified person in various capacities and entered into a consulting agreement with the individual. The findings also stated that the firm sold penny stocks without obtaining a signed and dated statement from each customer acknowledging receipt of the required penny stock transaction risk disclosure statement; without disclosing the bid and ask price prior to the transactions; without disclosing prior to, and at the time of confirmation, compensation to the firm and registered representative; without obtaining a written suitability statement; and without obtaining a trade agreement and a signed and dated written statement from each purchaser relating to the purchaser's financial condition, investment experience, and investment objectives prior to effecting transactions. In addition, NASD found that the firm, acting through an employee, executed unauthorized transactions in the accounts of public customers without the customers' prior knowledge, authorization, or consent. (NASD Case #C04020030)

Firms Fined

Acument Securities, Inc. (CRD #7661, San Francisco, California) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured and fined \$20,000. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that, acting through its securities division, it advertised on the World Wide Web that it would effect retail customer transactions for market orders at certain prices, and failed to disclose that in some cases, where multiple executions at different prices were required to fill a market order, it charged a commission for each execution. (NASD Case #C01030009)

Briarcliff Capital Corp. (CRD #14178, Boca Raton, Florida) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured and fined \$15,000, jointly and severally. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that it failed to report customer complaints to NASD. The findings also stated that the firm

failed to establish and maintain a supervisory system reasonably designed to achieve compliance with applicable securities laws and regulations in that it had no supervisory system or written procedures relating to compliance with NASD customer complaint reporting requirements. **(NASD Case #C07030023)**

Citigroup Global Markets, Inc. f/k/a Salomon Smith Barney, Inc. (CRD #7059, New York, New York) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured and fined \$225,000, including disgorgement of profits of \$125,000. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that the firm, as managing underwriter or syndicate member in hot initial public offerings (IPOs), placed an aggregate of shares of cancelled customer orders into proprietary branch error accounts after secondary trading commenced, and sold those shares at a profit. The findings also stated that the firm failed to have an adequate system in place to ensure that customer cancellations of IPO allocations were properly handled in compliance with NASD's Free-Riding and Withholding Rule. **(NASD Case #C05030021)**

Domestic Securities, Inc. (CRD #34721, Montvale, New Jersey) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured, fined \$22,500, and required to revise its written supervisory procedures concerning the Order Audit Trail SystemSM (OATSSM) rule within 30 business days. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that it transmitted to OATS execution reports that contained inaccurate, incomplete, or improperly formatted data that failed to match to an Automated Confirmation Transaction ServiceSM (ACTSM) trade report, or contained inaccurate timestamps. The findings also stated that the firm failed to timely report to OATS Reportable Order Events (ROE) and re-submitted repaired ROEs that were previously rejected without making these ROEs with the Rejected ROE Resubmit Flag, "Y."

In addition, NASD found that the firm submitted to OATS reports with respect to equity securities traded on The NASDAQ Stock Market that were not in the electronic form prescribed by NASD. The subject reports were rejected by the OATS system, and notice of such rejection was made available to the firm on the OATS Web Site. Furthermore, NASD found that the firm failed to correct or replace the subject reports representing 100 percent of all rejected ROEs. NASD also found that the firm transmitted to OATS reports for preferred SelectNet[®] orders that the firm was not required to submit. Moreover, NASD found that the firm made available a report on the covered orders in national market system securities that it received for execution from any person that included incorrect information as to at least six security/size/type categories. NASD also found that the firm's supervisory system failed to provide for supervision reasonably designed to achieve compliance with respect to applicable securities laws and regulations concerning OATS. **(NASD Case #CMS030101)**

Intersecurities, Inc. (CRD #16164, St. Petersburg, Florida) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured and fined \$125,000. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that its procedures failed to adequately provide for identification of correspondence as customer complaints and, therefore, failed to report certain customer complaints; and that the firm failed to maintain and preserve in each office of supervisory jurisdiction all written customer complaints in either a separate file of customer complaints and action taken by the firm, if any, or a separate record of such complaints, and a clear reference to the files containing the correspondence connected with such complaints as maintained in each office. In addition, NASD found that the firm failed to conduct adequate supervisory reviews of the complaint-handling process and did not provide adequate guidelines for conducting, tracking, and documenting customer complaint investigations.

NASD also found that the firm failed to provide adequate suitability guidance on variable universal life insurance transactions for registered representatives in connection with making recommendations for purchases or exchanges, allocating premium payments to sub-accounts, and recording and documenting the suitability of the transaction. Furthermore, NASD found that the firm failed to demonstrate that it made reasonable efforts to obtain information critical in making a determination of suitability and conducting related supervisory reviews, and information required for its books and records to be in conformity with applicable laws, rules, regulations, and statements of policy prescribed by the Securities and Exchange Commission (SEC) and NASD. Moreover, NASD found that the firm failed to obtain information regarding prior investment experience, liquid net worth, risk tolerance, time horizon, and investment objectives. NASD also found that the firm failed to establish procedures for the periodic review of customer account activity through surveillance of transactions in variable products to identify possible sale practice abuses. **(NASD Case #C05030020)**

McDonald Investments, Inc. (CRD #566, Cleveland, Ohio) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured and fined \$12,500. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that it failed to report to the Fixed Income Pricing SystemSM (FIPSSM) transactions in FIPS securities within five minutes after execution. The findings also stated that the firm incorrectly reported to FIPS transactions in FIPS securities that the firm should not have reported to FIPS under the FIPS rules. NASD also found that the firm incorrectly reported to FIPS transactions in high-yield securities that the firm should not have reported to FIPS under the FIPS rules. **(NASD Case #CMS030089)**

Merrill Lynch, Pierce, Fenner & Smith, Inc. (CRD #7691, New York, New York) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured and fined \$15,000. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that, as a market maker in securities, it was a party to a locked or crossed market condition prior to the market opening, received a Trade-or-Move message in each instance through SelectNet, and within 30 seconds of receiving such messages, failed to fill the incoming Trade-or-Move message for the full size of the message or move its bid down (offer up) by a quotation increment that would have unlocked/uncrossed the market. **(NASD Case #CMS030090)**

Merrill Lynch, Pierce, Fenner & Smith, Inc. (CRD #7691, New York, New York) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured and fined \$10,000. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that it reported to OATS execution reports that contained inaccurate, incomplete, or improperly formatted data that failed to match to an ACT trade report. The findings also stated that the firm transmitted to OATS reports containing inaccurate data as to the receiving terminal ID, receiving department ID, and originating department ID. **(NASD Case #CMS030093)**

Merrill Lynch, Pierce, Fenner & Smith, Inc. (CRD #7691, New York, New York) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured, fined \$10,000, and required to revise its written supervisory procedures concerning SEC Rule 15c2-11 and NASD Marketplace Rule 6740 within 30 days. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that it published quotations for an OTC Equity Security or, directly or indirectly, submitted such quotations for publication in a quotation medium and did not have in its records the documentations required by SEC Rule 15c2-11(a); did not have a reasonable basis under the circumstances for believing that the information was accurate in all material respects; or did not have a reasonable basis under the circumstances for believing that the sources of the information were reliable. NASD found that the quotations did not represent a customer's indication of unsolicited interest. The findings also stated that the firm failed to file a Form 211 with NASD at least three business days before the firm's quotations were published or displayed in a quotations medium. In addition, NASD found that the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with applicable securities laws and regulations concerning SEC Rule 15c2-11 and NASD Marketplace Rule 6740. **(NASD Case #CMS030108)**

National Financial Services, LLC (CRD #13041, Boston, Massachusetts) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured and fined \$12,000. Without admitting or denying the allegations, the firm

consented to the described sanctions and to the entry of findings that it failed to correctly report trades with the ".PRP" modifier. The findings also stated that the firm failed to display immediately customer limit orders in NASDAQ securities in its public quotation, when each such order was at a price that would have improved the firm's bid or offer in each such security; or when the order was priced equal to the firm's bid or offer and the national best bid or offer in such security, and the size of the order represented more than a de minimis change in relation to the size associated with its bid or offer in each such security. In addition, NASD found that the firm failed to report to ACT the correct symbol indicating whether the firm executed transactions in eligible securities in a principal or agency capacity. NASD also found that the firm failed to report to ACT the correct designation indicating whether the firm executed transactions in eligible securities as riskless principal transactions. **(NASD Case #CMS030104)**

NexTrade, Inc. (CRD #41087, Clearwater, Florida) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured and fined \$10,000. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that it failed to submit OATS data relating to the execution of customer limit orders. The findings also stated that the firm incorrectly identified market orders as limit orders when submitting new order reports to OATS. In addition, NASD found that the firm transmitted to OATS reports that contained inaccurate, incomplete, or improperly formatted data that failed to match to an ACT trade report. **(NASD Case #CMS030091)**

Southwest Securities, Inc. (CRD #6220, Dallas, Texas) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured, fined \$10,000, and required to pay \$356.95, plus interest, in restitution to public customers. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that it failed, in transactions for or with a customer, to use reasonable diligence to ascertain the best inter-dealer market, and failed to buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions. **(NASD Case #CMS030110)**

Susquehanna Capital Group (CRD #29337, Bala Cynwyd, Pennsylvania) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured, fined \$35,000, and required to revise its written supervisory procedures concerning the OATS rule within 30 business days. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that, as a market maker in securities, it was a party to a locked or crossed market condition prior to the market opening, received a Trade-or-Move message in each instance through SelectNet, and within 30 seconds of receiving such messages, failed to fill the incoming Trade-or-Move message for the full size of the message or move its bid down (offer up) by a quotation increment that would have

unlocked/uncrossed the market. The findings also stated that the firm transmitted to OATS reports that contained improperly formatted data, in that the reports contained timestamps using a standard 12-hour clock rather than 24-hour clock. In addition, NASD found that the firm transmitted to OATS reports that contained inaccurate, incomplete, or improperly formatted data, in that the reports contained inaccurate Account Type Codes and Routed Order IDs. NASD also found that the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with applicable securities laws and regulations concerning reporting to OATS with a timestamp using a 24-hour clock. **(NASD Case #CMS030087)**

Terra Nova Trading, LLC (CRD #37761, Chicago, Illinois) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured, fined \$20,000, and required to revise its written supervisory procedures concerning short-sale rules within 30 business days. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that it executed short-sale transactions in NASDAQ National Market® (NNM®) securities at or below the current inside bid when the current inside bid was below the preceding inside bid in the security. The findings also stated that the firm's supervisory system failed to provide for supervision reasonably designed to achieve compliance with applicable securities laws and regulations concerning short sales. **(NASD Case #CMS030102)**

Track Data Securities Corporation (CRD #103802, Brooklyn, New Jersey) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured, fined \$10,000, and required to revise its written supervisory procedures concerning the OATS rule within 30 business days. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that it failed to submit to OATS required information on 126 business days. The findings also stated that the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with applicable securities laws, regulations, and NASD rules concerning OATS. **(NASD Case #CMS030084)**

Firm Fined, Individuals Sanctioned

Investors Capital Corporation (CRD #30613, Lynnfield, Massachusetts), Timothy Boyle Murphy (CRD #2132822, Registered Representative, Quincy, Massachusetts), and C. David Weller (CRD #1004604, Registered Representative, Dover, New Hampshire) submitted a Letter of Acceptance, Waiver, and Consent in which the firm was censured and fined \$250,000, jointly and severally. Murphy was fined \$175,000, jointly and severally, and suspended from association with any NASD member in a principal capacity for 30 days. Weller was

fined \$75,000, jointly and severally, and suspended from association with any NASD member in a principal capacity for nine months. Without admitting or denying the allegations, the respondents consented to the described sanctions and to the entry of findings that the firm's written supervisory procedures and policies and its supervisory system were deficient in several areas, including branch office inspections, heightened supervision, outside business activities, review of customer transactions, designation of principals, representatives' outside brokerage accounts, anti-money laundering, and advertising. The findings stated that the firm failed to enforce its written supervisory procedures on a consistent basis in several of those areas and that the firm, acting through Murphy, failed to commit sufficient resources to its supervisory system. Furthermore, the findings stated that Weller failed to ensure that the firm's written supervisory procedures were adequately updated, maintained, and enforced; that they were reasonably designed to achieve compliance with applicable rules and regulations; and that the firm maintained reasonable and adequate supervisory systems. NASD also found that Weller failed to ensure that the compliance staff performed their delegated duties in several areas, such as advertising/sales literature and periodic transactions review of registered individuals' business. Moreover, the findings stated that Weller failed to supervise adequately the firm's registered representatives engaged in private securities transactions.

NASD also determined that the firm, acting through Weller, failed to approve the use of advertising and sales literature that violated NASD advertising rules. In addition, the findings stated that the firm's own Web site omitted material information and contained misleading and unwarranted statements, and that registered individuals posted items on an online bulletin board about the firm's parent company recommending its stock. Furthermore, NASD found that the firm, acting through Weller, failed to make and/or preserve certain books and records and failed to ensure that all customers were afforded with the appropriate "pre-dispute arbitration clause" when opening an account. The findings also stated that the firm, acting through Weller, failed to make and/or preserve certain books and records showing approval and review of Plan business. The firm, acting through Weller, also failed to timely report customer complaints. The firm, acting through Murphy, used the instrumentalities of interstate commerce to conduct a securities business while failing to maintain minimum required net capital.

Murphy's suspension began June 16, 2003, and will conclude at the close of business July 15, 2003. Weller's suspension began June 16, 2003, and will conclude at the close of business March 15, 2004. **(NASD Case #C11030012)**

Individuals Barred or Suspended

Iqbal Ashraf (CRD #1158662, Registered Principal, San Gabriel, California) submitted a Letter of Acceptance, Waiver, and Consent in which he was fined \$7,500, jointly and severally, suspended from association with any NASD member as a financial and operations principal for 30 days, and ordered to requalify by exam as a financial and operations principal before becoming reassociated with any NASD member. Without admitting or denying the allegations, Ashraf consented to the described sanctions and to the entry of findings that, acting on behalf of his member firm, he utilized the instrumentalities of interstate commerce to engage in the securities business while failing to have and maintain sufficient net capital.

Ashraf's suspension began June 2, 2003, and will conclude at the close of business July 1, 2003. (NASD Case #C02030022)

Craig Stuart Balsam (CRD #2680237, Registered Representative, Spring Valley, New York) submitted a Letter of Acceptance, Waiver, and Consent in which he was fined \$5,000 and suspended from association with any NASD member in any capacity for 30 days. Without admitting or denying the allegations, Balsam consented to the described sanctions and to the entry of findings that he participated in a securities transaction away from his member firm and failed to provide prior written notification to, or obtain written approval from, his member firm.

Balsam's suspension began June 2, 2003, and will conclude at the close of business July 1, 2003. (NASD Case #C10030025)

Richard Andrew Baumel (CRD #2837559, Registered Representative, Lawrence, New York) was barred from association with any NASD member in any capacity. The sanction was based on findings that Baumel created a false bank document and altered bank data as to addresses and other details in an effort to gain control over and convert the funds in the dormant account of a deceased public customer. The findings also stated that, in an attempt to gain control over the account, Baumel forged the deceased customer's signature on the back of the bank signature card that he had created. (NASD Case #C10020099)

Kenneth Ray Bell (CRD #2191634, Registered Representative, Memphis, Tennessee) was barred from association with any NASD member in any capacity. The sanction was based on findings that Bell effected unauthorized sales in, and cash withdrawals from, a public customer's variable annuity totaling \$124,900, and converted the funds to his own use and benefit without the customer's knowledge or consent. The findings also stated that Bell changed the address on the customer's account to his own home address, received the checks from the unauthorized sales at his own address, added his name as an additional payee on the checks, and deposited

the checks into his personal checking account. NASD also found that Bell admitted receiving the funds to his member firm but asserted that the funds were used for options trading on the customer's behalf. (NASD Case #C05020053)

Christopher John Benz (CRD #1633349, Registered Principal, Santa Monica, California) was fined \$25,000 and suspended from association with any NASD member in any capacity for six months. The fine must be paid before Benz reassociates with any NASD member following the suspension or before requesting relief from any statutory disqualification. The sanctions were based on findings that Benz, acting on behalf of his member firm, utilized the instrumentalities of interstate commerce to engage in the securities business while the firm failed to have and maintain sufficient net capital. The findings also stated that Benz failed to respond to NASD requests for information.

Benz's suspension began May 19, 2003, and will conclude at the close of business November 18, 2003. (NASD Case #C01020014)

Rakesh Bhakta (CRD #4421133, Associated Person, The Colony, Texas) submitted an Offer of Settlement in which he was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Bhakta consented to the described sanction and to the entry of findings that he willfully failed to disclose material information on his Uniform Application for Securities Industry Registration or Transfer Form (Form U-4). The findings also stated that Bhakta failed to respond to NASD requests for information. (NASD Case #C06020015)

Rex A. Blanton (CRD #4287584, Registered Representative, Connersville, Indiana) submitted a Letter of Acceptance, Waiver, and Consent in which he was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Blanton consented to the described sanction and to the entry of findings that he received an \$84,820 check from a public customer for the payment of insurance premiums, and without the knowledge or consent of the customer, altered the check by adding his name as payee and made it payable to the insurance company and himself. The findings also stated that Blanton endorsed the check and cashed it, applying \$409 of the proceeds toward the payment of the customer's auto insurance and misappropriating the balance for his own use and benefit. (NASD Case #C8A030030)

Robert James D'Andria (CRD #1916172, Registered Representative, Manasquan, New Jersey) submitted a Letter of Acceptance, Waiver, and Consent in which he was fined \$5,000 and suspended from association with any NASD member in any capacity for 10 days. Without admitting or denying the allegations, D'Andria consented to the described sanctions and to the entry of findings that he failed to disclose material information on his Form U-4.

D'Andria's suspension began June 2, 2003, and concluded at the close of business June 11, 2003. (NASD Case #C9B030023)

Anthony Lucas Debenedictis (CRD #2326689, Registered Representative, White Plains, New York) submitted a Letter of Acceptance, Waiver, and Consent in which he was fined \$5,000, suspended from association with any NASD member in any capacity for 30 days, and ordered to pay disgorgement of \$381.43, plus interest, in unjust profits in partial restitution to public customers. Without admitting or denying the allegations, Debenedictis consented to the described sanctions and to the entry of findings that he effected transactions in the joint trust account of public customers without their prior knowledge, authorization, or consent.

Debenedictis' suspension began May 19, 2003, and will conclude at the close of business June 17, 2003. (NASD Case #C10030028)

John Oliver Edwards (CRD #1627812, Registered Representative, Cincinnati, Ohio) submitted an Offer of Settlement in which he was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Edwards consented to the described sanction and to the entry of findings that he participated in private securities transactions without providing prior written notice to his member firm. The findings also stated that Edwards made improper use of customer funds and caused \$106,000 of charitable remainder trusts, for which he was trustee, to be placed with an entity that purchased a residence in which he resided. In addition, Edwards had a financial benefit in a securities account at an NASD member firm other than his employer, also a NASD member, but did not notify his member firm of the account or notify the member firm carrying the account of his association with another NASD member firm. The findings further stated that Edwards failed to respond to NASD requests for information. (NASD Case #C3A020029)

David Eugene (CRD #4487526, Associated Person, Miramar, Florida) was barred from association with any NASD member in any capacity. The sanction is based on findings that Eugene failed to respond to NASD requests for information. The findings also stated that Eugene willfully failed to disclose material information on his Form U-4. (NASD Case #C07020097)

Joseph Charles Ferragamo (CRD #2868601, Registered Representative, Staten Island, New York) was barred from association with any NASD member in any capacity. The sanction was based on findings that Ferragamo failed to respond to an NASD request to appear for an on-the-record interview. (NASD Case #CMS020208)

David Paul Folino (CRD #1371813, Registered Principal, Camarillo, California) submitted a Letter of Acceptance, Waiver, and Consent in which he was fined \$5,000, suspended

from association with any NASD member in any capacity for three months, and required to disgorge \$17,250, plus interest, in commissions received to be paid as restitution to public customers. Without admitting or denying the allegations, Folino consented to the described sanctions and to the entry of findings that he participated in private securities transactions and failed to provide prior notice, written or otherwise, to his member firm describing the proposed transactions, his role therein, and whether he had received, or might receive, selling compensation in connection with the transactions.

Folino's suspension began June 2, 2003, and will conclude at the close of business September 1, 2003. (NASD Case #C06030006)

Colby Daniel Furlong (CRD #2755002, Registered Representative, West Liberty, Ohio) submitted an Offer of Settlement in which he was suspended from association with any NASD member in any capacity for eight weeks and ordered to pay \$53,000 in restitution to public customers. Without admitting or denying the allegations, Furlong consented to the described sanctions and to the entry of findings that directly and/or indirectly, singly and in concert, by use of the means or instrumentalities of interstate commerce or of the mails, and in connection with the purchase and sale of securities, he knowingly or recklessly engaged in, and/or induced others to engage in a device, scheme, or artifice to defraud; the use of an untrue statement of material fact and/or the omission of material facts necessary to make statements made, in light of the circumstances, not misleading; and acts, practices, or courses of business that operated as a fraud or deceit upon persons. The findings also stated that Furlong solicited and recommended investments to public customers and omitted discussion or disclosure of material negative information and risk.

Furlong's suspension began June 2, 2003, and will conclude July 27, 2003. (NASD Case #CAF020023)

Maria Teresa Gonzalez (CRD #4441307, Associated Person, Aliso Viejo, California) submitted an Offer of Settlement in which she was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Gonzalez consented to the described sanction and to the entry of findings that she willfully failed to disclose a material fact on her Form U-4. (NASD Case #C02030006)

John Goodish (CRD #1411721, Registered Representative, Oakland Park, Florida) was barred from association with any NASD member in any capacity. The sanction was based on findings that Goodish received a \$6,050.18 check from a public customer to purchase a variable universal life insurance policy, endorsed the check, and used the funds for his own purposes. The findings also stated that Goodish failed to respond to NASD requests for information. (NASD Case #C07020098)

Machella Lavern Graham (CRD #3074650, Associated Person, Sacramento, California) submitted a Letter of Acceptance, Waiver, and Consent, in which she was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Graham consented to the described sanction and to the entry of findings that she converted \$7,915.59 belonging to her member firm to her own use and benefit. **(NASD Case #C01030010)**

Matthew Patrick Green (CRD #4464386, Registered Representative, St. Petersburg, Florida) submitted a Letter of Acceptance, Waiver, and Consent in which he was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Green consented to the described sanction and to the entry of findings that he completed an account service form for the account of a public customer that requested his member firm to change the customer's address of record and to liquidate \$7,500 from the customer's account. The findings also stated that Green forged, or caused to be forged, the signature of the customer on the form. NASD also found that a \$7,500 check was sent to an entity under Green's control and that he obtained and used the funds for his own benefit, without the authorization from the customer to change the account address, to sign the customer's name to the form, or to withdraw funds from the account and use them for his own purposes. **(NASD Case #C07030027)**

Jack Benjamin Grubman (CRD #1505636, Registered Representative, New York, New York) submitted an Offer of Settlement in which he was fined \$7,500,000, barred from association with any NASD member in any capacity, and ordered to disgorge \$7,500,000. Without admitting or denying the allegations, Grubman consented to the described sanctions and to the entry of findings that he wrote reports regarding a stock that were not based on principles of fair dealing and good faith, and did not provide a sound basis for evaluating facts regarding the stock issuer's business prospects and the risks of investing. The findings also stated that Grubman prepared reports that contained exaggerated, unwarranted, or misleading statements or claims for which there was no reasonable basis while omitting material facts or qualifications, causing the reports to be misleading and not adequately balanced. NASD also found that Grubman's reports contained exaggerated, unwarranted, or misleading statements or claims about a stock's target price, and opinions for which there were no reasonable basis while omitting material facts or qualifications, causing the target price to be unreasonable. In addition, NASD found that Grubman publicly recommended a stock while privately expressing doubts and discussing risk. Moreover, NASD found that Grubman made misrepresentations and omissions of fact in a blast voicemail message regarding the financial situation of a stock issuer, providing exaggerated, unwarranted, or misleading statements or claims and omitting material facts or qualifications causing the statement to be unreasonable. **(NASD Case #CAF020042)**

Kathryn Lynn Hartley (CRD #3198918, Registered Representative, Mishawaka, Indiana) submitted a Letter of Acceptance, Waiver, and Consent in which she was fined \$5,000 and suspended from association with any NASD member in any capacity for one year. The fine must be paid before Hartley reassociates with any NASD member following the suspension or before requesting relief from any statutory disqualification. Without admitting or denying the allegations, Hartley consented to the described sanctions and to the entry of findings that she affixed the signature of a public customer on a policy and illustration acknowledgement receipt form without the customer's knowledge or consent. The findings also stated that Hartley affixed the signature of a public customer on a contract receipt form without the customer's knowledge or consent.

Hartley's suspension began June 2, 2003, and will conclude at the close of business June 1, 2004. **(NASD Case #C8A030031)**

William John Henderson, III (CRD #1665525, Registered Principal, Rochester, New Hampshire) submitted a Letter of Acceptance, Waiver, and Consent in which he was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Henderson consented to the described sanction and to the entry of findings that he engaged in private securities transactions, for compensation, without providing prior written notice to, and receiving prior written approval from, his member firm. **(NASD Case #C11030015)**

Douglas John Hershey (CRD #1079473, Registered Representative, Charlotte, North Carolina) and Claude William Johnson, III (CRD #1427025, Registered Representative, Charlotte, North Carolina) submitted a Letter of Acceptance, Waiver, and Consent in which they were each fined \$55,000, which includes disgorgement of \$102,105 in earned commissions, and suspended from association with any NASD member in any capacity for 12 months. The fine must be paid before Hershey or Johnson reassociates with any NASD member following his suspension or before requesting relief from any statutory disqualification. Without admitting or denying the allegations, Hershey and Johnson consented to the described sanctions and to the entry of findings that they participated in an outside business activity for compensation without providing prompt written notice to their member firm.

Hershey's and Johnson's suspensions began June 2, 2003, and will conclude at the close of business June 1, 2004. **(NASD Case #C07030022)**

Scott Bradley Hollenbeck (CRD #2097674, Registered Representative, Kernersville, North Carolina) submitted a Letter of Acceptance, Waiver, and Consent in which he was fined \$5,000 and suspended from association with any NASD member in any capacity for 30 days. The fine must be paid

before Hollenbeck reassociates with any NASD member following the suspension or before requesting relief from any statutory disqualification. Without admitting or denying the allegations, Hollenbeck consented to the described sanctions and to the entry of findings that he participated in private securities transactions, for compensation, and failed to give his member firm prior written notice of his intentions and to receive prior approval from his member firm.

Hollenbeck's suspension began May 19, 2003, and will conclude at the close of business June 17, 2003. (NASD Case #C07030021)

Christian Johnson (CRD #4218744, Registered Representative, Chicago, Illinois) submitted a Letter of Acceptance, Waiver, and Consent in which he was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Johnson consented to the described sanction and to the entry of findings that he signed the names of public customers to various forms without authorization. The findings also stated that Johnson failed to respond to NASD requests for information. (NASD Case #C8A030029)

Adam Peter Klein (CRD #2686322, Registered Representative, Staten Island, New York) was barred from association with any NASD member in any capacity. The sanction was based on findings that Klein failed to respond to an NASD request to appear for an on-the-record interview. (NASD Case #CMS020207)

Robert Joseph Krause (CRD #2445175, Registered Supervisor, Warwick, New York) submitted a Letter of Acceptance, Waiver, and Consent in which he was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Krause consented to the described sanction and to the entry of findings that he, without authorization, reversed margin interest charges of \$1,379.72 in a personal account that he maintained with his member firm. (NASD Case #C9B030020)

Nicholas John Lomax (CRD #4026204, Registered Representative, Lansing, Michigan) was barred from association with any NASD member in any capacity. The sanction was based on findings that Lomax received \$778 from a public customer to purchase car insurance, failed to use the funds to purchase insurance, and, instead, used the funds for other purposes thereby misusing the customer's funds. The findings also stated that Lomax failed to respond to an NASD request for information. (NASD Case #C8A020083)

Miguel Angel Martinez, Sr. (CRD #1018292, Registered Principal, New York, New York) submitted a Letter of Acceptance, Waiver, and Consent in which he was fined \$10,000 and suspended from association with any NASD member in any capacity for nine months. The fine must be paid before Martinez reassociates with any NASD member following

the suspension or before requesting relief from any statutory disqualification. Without admitting or denying the allegations, Martinez consented to the described sanctions and to the entry of findings that he effected a private securities transaction and failed to provide prior written notification to his member firm.

Martinez' suspension began June 2, 2003, and will conclude at the close of business March 1, 2004. (NASD Case #C10030026)

Colleen Margaret McLaughlin (CRD #1605063, Registered Representative, Whitinsville, Massachusetts) submitted a Letter of Acceptance, Waiver, and Consent in which she was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, McLaughlin consented to the described sanction and to the entry of findings that she photocopied a check from a public customer that had been previously submitted to her member firm; altered the date, the check number, and the amount on the customer's check; and submitted the altered check to her member firm for credit to the customer's account. (NASD Case #C11030016)

Richard Francis McNally (CRD #329959, Registered Representative, Apopka, Florida) submitted a Letter of Acceptance, Waiver, and Consent in which he was barred from association with any NASD member in any capacity and required to pay \$16,592.21, plus interest, in restitution to public customers. The restitution must be paid before McNally requests relief from any statutory disqualification. Without admitting or denying the allegations, McNally consented to the described sanctions and to the entry of findings that he recommended and initiated transactions in the joint securities account of public customers without having reasonable grounds for believing that the recommendations and resulting transactions were suitable for them. The finding also stated that, as a result of McNally's recommendations, the customers' account incurred losses of \$16,592.21. NASD also found that McNally entered into an arrangement with a registered principal at his member firm whose registration had been denied in the State of Rhode Island to use McNally's name and commission number to actively trade the customer's account, receiving approximately \$65,000 in commissions. In addition, NASD found that the customer's account record at the firm had been falsified to reflect McNally as the registered representative. (NASD Case #C11030013)

Joel Curtis Morgan (CRD #3124059, Registered Representative, Chino, California) submitted a Letter of Acceptance, Waiver, and Consent in which he was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Morgan consented to the described sanction and to the entry of findings that, in an attempt to extricate himself from a controversy between another representative and a public customer, and without his member firm's knowledge or consent, he created a fictitious memorandum and a fictitious trade report on firm letterhead which misrepresented that the controversy had been resolved in

favor of the customer. The findings also stated that Morgan forged the name of another firm employee on the memorandum who was purportedly a "trade desk supervisor" without the employee's knowledge or consent. In addition, NASD found that Morgan submitted the fictitious documents to the firm's representative he was assisting who then gave the false documents to the public customer. (NASD Case #C02030020)

Robert Dickson Mosby (CRD #1791036, Registered Supervisor, Kirkwood, Missouri) submitted a Letter of Acceptance, Waiver, and Consent in which he was fined \$24,350, including disgorgement of \$14,350 in profits, and suspended from association with any NASD member in any capacity for three months. The fine must be paid before Mosby reassociates with any NASD member following the suspension or before requesting relief from any statutory disqualification. Without admitting or denying the allegations, Mosby consented to the described sanctions and to the entry of findings that he effected securities transactions for the accounts of public customers and shared in the profits earned on the subsequent sales of the securities without obtaining prior written authorization from his member firm. The findings also stated that Mosby's purchases involved allocations of IPOs that were "hot" and immediately traded in the aftermarket at a premium, violating NASD's Free Riding and Withholding Interpretation.

Mosby's suspension began June 2, 2003, and will conclude at the close of business September 1, 2003. (NASD Case #C05030022)

Bryan Edward Muller (CRD #2449729, Registered Representative, Seaford, New York) submitted a Letter of Acceptance, Waiver, and Consent in which he was fined \$10,000 and suspended from association with any NASD member in any capacity for 90 days. The fine must be paid before Muller reassociates with any NASD member following the suspension or before requesting relief from any statutory disqualification. Without admitting or denying the allegations, Muller consented to the described sanctions and to the entry of findings that he solicited individuals to purchase shares of stock and misrepresented and/or omitted material facts and made baseless statements regarding the prospective performance of the stock and the risks involved in investing in the stock.

Muller's suspension began June 2, 2003, and will conclude August 30, 2003. (NASD Case #C10030027)

Kelly Anderson Penley, III (CRD #4396942, Registered Representative, Belmont, North Carolina) was barred from association with any NASD member in any capacity. The sanction was based on findings that Penley willfully failed to disclose material facts on his Form U-4. (NASD Case #C07020089)

Michael Donovan Puls (CRD #2671882, Registered Representative, Lincoln, Nebraska) submitted a Letter of Acceptance, Waiver, and Consent in which he was fined \$2,500 and suspended from association with any NASD member in any capacity for three months. The fine must be paid before Puls reassociates with any NASD member following the suspension or before requesting relief from any statutory disqualification. Without admitting or denying the allegations, Puls consented to the described sanctions and to the entry of findings that he engaged in outside business activities, for compensation, and failed to provide prompt written notice to his member firm.

Puls' suspension began May 19, 2003, and will conclude at the close of business August 18, 2003. (NASD Case #C04030020)

Rodney Wade Ratcliff (CRD #2587341, Registered Representative, Wesley Chapel, Florida) submitted a Letter of Acceptance, Waiver, and Consent in which he was fined \$2,500 and suspended from association with any NASD member in any capacity for 10 business days. The fine must be paid before Ratcliff reassociates with any NASD member following the suspension or before requesting relief from any statutory disqualification. Without admitting or denying the allegations, Ratcliff consented to the described sanctions and to the entry of findings that he negotiated and entered into a settlement agreement with a public customer to pay him \$850 to resolve the customer's complaint about a sales charge on a variable universal life product for which Ratcliff was the customer's representative, without the knowledge or consent of his member firms.

Ratcliff's suspension began May 19, 2003, and concluded at the close of business June 2, 2003. (NASD Case #C8B030009)

Kenneth Wayne Robinson (CRD #1886846, Registered Representative, Houston, Texas) was barred from association with any NASD member in any capacity. The sanction was based on findings that Robinson engaged in free riding by purchasing and selling securities in the form of put and call options in his personal cash and margin account at his member firm without having the ability or intent to pay for the purchases. The findings stated that Robinson caused his member firm to defer the deposit of cash and securities beyond the time when such transactions would normally be settled or to meet the margin requirements by the liquidation of securities in his margin account. In addition, NASD determined that Robinson intentionally or recklessly misrepresented or omitted to disclose the material facts to his member firm that he could not, or did not, intend to pay for his securities transactions, thereby causing his firm to unwittingly assume the risk of his trading activities. The findings also stated that Robinson failed to respond to NASD requests for information. (NASD Case #C06020020)

Richard David Russell, Sr. (CRD #1464018, Registered Representative, Wheaton, Illinois) submitted a Letter of Acceptance, Waiver, and Consent in which he was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Russell consented to the described sanction and to the entry of findings that he converted customer funds to his own use that were sent to him for investment purposes. (NASD Case #C8A030033)

Lionel James Sanchez (CRD #1782052, Registered Principal, Albuquerque, New Mexico) was barred from association with any NASD member in any capacity and ordered to pay \$341,136 in restitution to public customers. The sanctions were based on findings that Sanchez made unsuitable recommendations to public customers for products issued by entities that he founded, operated, owned, or controlled, or with which he was affiliated, without having reasonable grounds for believing that the recommendations were suitable for the customers based on their other security holdings, financial situation, and needs. The findings also stated that Sanchez failed to respond to NASD requests to appear for an NASD on-the-record interview. (NASD Case #C3A020052)

Emanuel Louis Sarris, Sr. (CRD #1363059, Registered Representative, New Hope, Pennsylvania) was fined \$10,000, ordered to requalify by exam before re-entering the securities industry in any capacity, and suspended from association with any NASD member in any capacity for one year. The sanctions were based on findings that Sarris willfully failed to disclose material facts on his Form U-4.

Sarris' suspension began May 5, 2003, and will conclude at the close of business May 4, 2004. (NASD Case #C9A020017)

Barton Garland Saunders (CRD #2252112, Registered Principal, Lafayette, Indiana) submitted a Letter of Acceptance, Waiver, and Consent in which he was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Saunders consented to the described sanction and to the entry of findings that he created and sent a fictitious account statement to a public customer that falsely indicated the value of the customer's investments in his account. (NASD Case #C8A030027)

Michael Murray Scott (CRD #2332480, Registered Representative, Willis, Texas) submitted an Offer of Settlement in which he was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Scott consented to the described sanction and to the entry of findings that he engaged in an outside business activity, for compensation, and failed to give any notice to his member firm. The findings also stated that Scott failed to respond to NASD requests for information. (NASD Case #C06020022)

Jackson J. Short (CRD #1879026, Registered Representative, Bryan, Ohio) submitted a Letter of Acceptance, Waiver, and Consent in which he was barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Short consented to the described sanction and to the entry of findings that he affixed the signature of a public customer on forms needed to transfer variable annuity policies held in the customer's retirement plan to a separate variable annuity contract. (NASD Case #C8B030010)

Jack Harry Stein (CRD #1233359, Registered Representative, West Palm Beach, Florida) was fined \$25,000 and suspended from association with any NASD member in any capacity for three months. The SEC affirmed the sanctions imposed by the National Adjudicatory Council (NAC). The sanctions were based on findings that Stein made unsuitable recommendations and engaged in excessive trading in the account of a public customer. The findings also stated that Stein sold the customer's conservative investments; purchased speculative oil, gas, and mining stocks; and began trading the customer's account on margin.

Stein's suspension began June 2, 2003, and will conclude at the close of business September 1, 2003. (NASD Case #C07000003)

Clifford Jean St. Simon (CRD #2701335, Registered Principal, Uniondale, New York) submitted a Letter of Acceptance, Waiver, or Consent in which he was fined \$5,100, including disgorgement of \$100 in commissions, and suspended from association with any NASD member in any capacity for 30 days. Without admitting or denying the allegations, St. Simon consented to the described sanctions and to the entry of findings that he effected transactions in the accounts of public customers without their prior knowledge, authorization, or consent.

St. Simon's suspension began May 19, 2003, and will conclude at the close of business June 17, 2003. (NASD Case #CLI030009)

John Valentino Tito (CRD #3215150, Associated Person, Brooklyn, New York) was barred from association with any NASD member in any capacity. The sanction was based on findings that Tito willfully failed to disclose a material fact on his Form U-4. The findings also stated that Tito failed to respond to NASD requests for information. (NASD Case #C10010146)

Complaints Filed

The following complaints were issued by NASD. Issuance of a disciplinary complaint represents the initiation of a formal proceeding by 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.

Theodore Sanidad Alvia (CRD #3086395, Registered Representative, Schaumburg, Illinois) was named as a respondent in an NASD complaint alleging that he engaged in unauthorized transactions in the account of public customers without the knowledge or consent of the customers, and in the absence of written or oral authorization to Alvia to exercise discretion in the accounts. The complaint also alleges that Alvia failed to respond to NASD requests for documents and information. (NASD Case #C8A030028)

Michael Frederick Flannigan (CRD #1135700, Registered Principal, Excelsior, Minnesota), Richard James Cochrane (CRD #1924141, Registered Principal, Edina, Minnesota), Larry Laverne Nelson (CRD #1378197, Registered Principal, Coral Springs, Florida), and Stephen Frank Molinari (CRD #1845773, Registered Principal, Pompano Beach, Florida) were named as respondents in an NASD complaint alleging that a member firm, acting through Flannigan and Cochrane, employed Molinari as a general securities representative at a firm's branch office and knew, or should have known, that he had not successfully completed the series 24 exam and was not registered as a general securities principal with NASD. The complaint also alleges that Flannigan and Cochrane knew, or should have known, that Molinari was not properly licensed as a general securities principal and allowed, aided, and assisted Molinari to perform the functions of a registered principal. The complaint further alleges that Flannigan, Nelson, and Cochrane failed to establish and maintain a system to supervise the activities of each registered representative and associated person that was reasonably designed to achieve compliance with applicable laws, rules, and regulations related to obtaining customer account information for customers.

In addition, the complaint alleges that a member firm, acting through Flannigan, Cochrane, and Nelson, failed to obtain vital customer information and to transcribe it upon the new account forms relating to the firm's participation in an offering, and failed to obtain suitability information regarding customers who purchased shares in the offering. Furthermore, the complaint alleges that Nelson permitted, aided, and assisted an individual in performing the functions of a registered representative when he was not registered with NASD. Moreover, the complaint alleges that Flannigan, Nelson, and Cochrane participated in an offering and failed to comply with SEC penny stock rules. Furthermore, the complaint alleges

that Molinari acted in a supervisory capacity without proper registration, and permitted and assisted an individual in engaging in the securities business and/or functioning as a representative prior to properly qualifying and/or registering in the appropriate capacity with NASD. In addition, the complaint alleges that Molinari failed to respond to NASD requests for information and engaged in private securities transactions, for compensation, without providing written notice to, and obtaining written authorization from, his member firm. Moreover, the complaint alleges that Molinari, by the use or instrumentalities of interstate commerce or the mails, participated in securities transactions through accounts for which he was account representative, and intentionally or recklessly misrepresented and failed to disclose material facts. (NASD Case #C04030024)

Ralph Timothy Grubb (CRD #1528906, Registered Representative, Johnson City, Tennessee) was named as a respondent in an NASD complaint alleging that he recommended and effected the sale of deferred variable annuity contracts to public customers without having a reasonable basis for believing that the transactions were suitable for the customers based on their financial situations and needs. (NASD Case #C05030019)

David William Haburjak (CRD #2233093, Registered Representative, W. Gastonia, North Carolina) was named as a respondent in an NASD complaint alleging that he failed to follow the instructions of a public customer and change the sub-account investments of the customer from the existing growth mutual funds to other growth mutual funds. The complaint also alleges that Haburjak changed the address of record on the account of a public customer without her knowledge or consent, and prepared written statements to his member firm that falsely represented that he did not change the customer's address. In addition, the complaint alleges that Haburjak misrepresented to a public customer the current value and interest percentage paid on her account. Moreover, the complaint alleges that Haburjak failed to respond to NASD requests to appear and give testimony. (NASD Case #C07030028)

Jeffrey John Miller (CRD #2576559, Registered Principal, Onalaska, Wisconsin) was named as a respondent in an NASD complaint alleging that he recommended to, and effected securities transactions for, public customers without having reasonable grounds for believing that the recommendations and resulting transactions were suitable for the customers based on their financial situation, investment objectives, and needs. The complaint also alleges that Miller induced the offer and sale of the securities to public customers by making untrue statements of material fact or omitting to state material facts necessary in order to make the statements made, in light of the circumstances in which they were made, not misleading.

In addition, the complaint alleges that Miller received approximately \$53,643 in commissions for the sale of the variable life insurance policies and sent a \$50,000 check to an insurance company to pay the premiums and fund the policies, moved the money out of his checking account so that the check would not clear, and failed to return the commissions and cancel the policies but used the commission for his own benefit. Furthermore, the complaint alleges that Miller failed to respond completely to NASD requests to provide documents and information. (NASD Case #C8A030026)

Wayne Richardson (CRD #2074676, Registered Principal, Smithtown, New York) was named as a respondent in an NASD complaint alleging that he executed transactions in the account of a public customer that were excessive in volume and frequency in view of the customer's financial circumstances, investment objectives, and needs. The complaint also alleges that Richardson's trading strategy involved substantial use of margin and aggressive options trading. (NASD Case #C10030021)

Donald Gene Schuster (CRD #2598174, Registered Representative, Tigard, Oregon) was named as a respondent in a complaint alleging that, while he was the treasurer of a company, he issued checks drawn on the company's bank account for \$27,198.60 that were made payable to an account that the respondent controlled. The complaint also alleges that, by endorsing the checks, Schuster converted the funds to his own use and benefit without the company's prior knowledge, authorization, or consent. In addition, the complaint alleges that, in order to conceal his conversion of funds, Schuster created and presented to the company's Board of Directors a false account statement from his member firm, although no account was actually maintained in the company's name at Schuster's member firm. Furthermore, the complaint alleges that Schuster failed to respond to NASD requests for information. (NASD Case #C3B030008)

Linda Joan Shenko (CRD #2324137, Registered Representative, Whitesboro, New York) was named as a respondent in an NASD complaint alleging that she instructed a public customer to remit employee contributions directly to her and not to her member firm. The complaint also alleges that the customer, on behalf of a defined distributor plan, issued a \$14,699.97 check, payable to Shenko, for investment in the plan; Shenko misappropriated the proceeds to her own use and benefit without the knowledge or consent of the customer and/or plan participants. (NASD Case #C11030014)

Firms Suspended for Failure to File Annual Audit Report

The following firms were suspended from membership in NASD for failure to comply with formal written requests to submit financial information to NASD. The action was based on the provisions of NASD Rule 8221. The date the suspension 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.

Berg Faircloth Investment Advisors, LLC
Vienna, Virginia
(April 23, 2003)

Business and Individual Insurance Services, Inc.
Hawthorne, California
(April 23, 2003)

Clarity Securities, Inc.
Miami, Florida
(April 23, 2003)

Clements Company Investment Advisors
San Diego, California
(April 23, 2003)

Dynasty Capital Corporation
Portland, Oregon
(April 23, 2003)

PVR Securities, Inc.
Princeton, New Jersey
(April 23, 2003)

Wealthsource Financial Services, Inc.
Seminole, Florida
(April 23, 2003)

Individuals Barred Pursuant to NASD Rule 9544 for Failure to Provide Information Requested Under NASD Rule 8210

(The date the bar became effective is listed after the entry.)

Bealman, Vicki D.
Virginia Beach, Virginia
(March 21, 2003)

Berry, Daniel J.
Bronx, New York
(April 28, 2003)

Brush, Bryan R.
Garden City, New York
(April 28, 2003)

Lemieux, Charles J.
Levittown, New York
(April 9, 2003)

Neiswender, John
Scottsdale, Arizona
(April 28, 2003)

Patterson, Jr., Melvin
San Jose, California
(April 28, 2003)

Weiss, Barry
Marietta, Georgia
(April 25, 2003)

Weston, Robert T.
New Canaan, Connecticut
(April 25, 2003)

Individuals Suspended Pursuant to NASD Rule 9541(b) for Failure to Provide Information Requested Under NASD Rule 8210

(The date the suspension began is listed after the entry. If the suspension has been lifted, the date follows the suspension date.)

Angelou, Morris
Rego Park, New York
(May 8, 2003)

Avella, Jr., Michael
Remsenburg, New York
(April 21, 2003)

Davidson, Michael
Brooklyn, New York
(April 21, 2003)

Pagano, Brian Joseph
West Islip, New York
(May 8, 2003)

Peters, Troy M.
Solana Beach, California
(April 9, 2003)

Spear, James B.
Evansville, Indiana
(April 21, 2003)

Starominski, Yevgeny
Forest Hills, New York
(April 15, 2003)

Stewart, Stephen R.
Cary, North Carolina
(April 25, 2003)

Tanner, Jr., Thomas
Hartselle, Alabama
(May 5, 2003)

Thalheim, David
Old Westbury, New York
(April 21, 2003)

NASD's NAC Bars Tony Elgindy and Expels Key West Securities, Inc., For Manipulative Short Selling Scheme

NASD's National Adjudicatory Council (NAC) ruled that Amr (Tony) Elgindy and his firm, Key West Securities, Inc., engaged in a manipulative scheme in 1997 to inflate artificially the share price of Saf T Lok, Inc., by entering fraudulent quotations in the NASDAQ system, selling the stock short at the artificially high prices, and then taking active steps to depress the share price of Saf T Lok through the dissemination of negative research comments. The NAC ruling reversed that portion of a December 2001 NASD Hearing Panel decision that dismissed the charge of manipulation, while affirming the Hearing Panel's findings regarding other violations. The NAC barred Elgindy from associating with any NASD member in any capacity, expelled Key West Securities from NASD membership, and fined Elgindy and Key West Securities \$51,000, jointly and severally.

NASD filed the original complaint in March 2000. It charged that from Oct. 9, 1997, to Nov. 11, 1997, Key West Securities and Elgindy engaged in a manipulative short selling scheme involving the common shares of Saf T Lok, Inc. NASD charged that Elgindy entered quotes in Saf T Lok designed to artificially increase the inside bid, failed to honor the firm's quotes, and published negative research comments about the company to support the fraudulent scheme. The complaint also alleged that Key West Securities and Elgindy violated NASD's advertising rule by disseminating a negative report about Saf T Lok that failed to disclose that Key West Securities was a registered market maker and held a proprietary short position in the stock. At the time of the manipulation in October 1997, Saf T Lok was listed on the NASDAQ SmallCap Market.

In reversing the Hearing Panel's dismissal of the market manipulation charges, the NAC found that the conduct of Elgindy and Key West Securities was fraudulent and violated

NASD rules and federal securities laws. The NAC concluded that the Hearing Panel incorrectly required NASD to prove that Elgindy and Key West Securities controlled the market for Saf T Lok shares to reach a finding of manipulation. Rather, the NAC ruled that Elgindy's actions violated NASD fraud rules because he took steps to artificially influence the market price for Saf T Lok shares.

The NAC also overruled the Hearing Panel's conclusion that the evidence did not prove manipulation because it did not have certain "hallmarks" of a classic "pump and dump" manipulation. The NAC pointed out that there is no one exclusive blueprint for market manipulation, and emphasized that the securities laws contain a catch-all provision that may be applied flexibly to allow regulators to deal with unique manipulative schemes.

Elgindy has appealed the NAC's decision to the SEC. The NAC's order that Elgindy be barred and Key West Securities be expelled is in effect pending consideration of the appeal. (NASD Case #CMS000015)

Ten of Nation's Top Investment Firms Settle Enforcement Actions Involving Conflicts of Interest Between Research and Investment Banking

Historic Settlement Requires Payments of Penalties of \$487.5 Million, Disgorgement of \$387.5 Million, Payments of \$432.5 Million to Fund Independent Research, and Payments of \$80 Million to Fund Investor Education And Mandates Sweeping Structural Reforms

Securities and Exchange Commission Chairman William H. Donaldson, New York Attorney General Eliot Spitzer, North American Securities Administrators Association President Christine Bruenn, NASD Chairman and CEO Robert Glauber, New York Stock Exchange Chairman and CEO Dick Grasso, and state securities regulators have announced that enforcement actions against ten of the nation's top investment firms have been completed, thereby finalizing the global settlement in principle reached and announced by regulators last December. That settlement followed joint investigations by the regulators of allegations of undue influence of investment banking interests on securities research at brokerage firms, and the enforcement actions announced today track the provisions of the December global settlement in principle.

The ten firms against which enforcement actions are being announced today are:

- ◆ Bear, Stearns & Co. Inc. (Bear Stearns)
- ◆ Credit Suisse First Boston LLC (CSFB)
- ◆ Goldman, Sachs & Co. (Goldman)

- ◆ Lehman Brothers Inc. (Lehman)
- ◆ J.P. Morgan Securities Inc. (J.P. Morgan)
- ◆ Merrill Lynch, Pierce, Fenner & Smith, Incorporated (Merrill Lynch)
- ◆ Morgan Stanley & Co. Incorporated (Morgan Stanley)
- ◆ Citigroup Global Markets Inc. f/k/a Salomon Smith Barney Inc. (SSB)
- ◆ UBS Warburg LLC (UBS Warburg)
- ◆ U.S. Bancorp Piper Jaffray Inc. (Piper Jaffray)

Penalties, Disgorgement and Funds for Independent Research and Investor Education

Pursuant to the enforcement actions, the ten firms will pay a total of \$875 million in penalties and disgorgement, consisting of \$387.5 million in disgorgement and \$487.5 million in penalties (which includes Merrill Lynch's previous payment of \$100 million in connection with its prior settlement with the states relating to research analyst conflicts of interest). Under the settlement agreements, half of the \$775 million payment by the firms other than Merrill Lynch will be paid in resolution of actions brought by the SEC, NYSE, and NASD, and will be put into a fund to benefit customers of the firms. The remainder of the funds will be paid to the states. In addition, the firms will make payments totaling \$432.5 million to fund independent research, and payments of \$80 million from seven of the firms will fund and promote investor education. The total of all payments is roughly \$1.4 billion.

Under the terms of the settlement, the firms will not seek reimbursement or indemnification for any penalties that they pay. In addition, the firms will not seek a tax deduction or tax credit with regard to any federal, state or local tax for any penalty amounts that they pay under the settlement.

Below is a list of how much each firm is paying pursuant to the settlement. The individual penalties include some of the highest ever imposed in civil enforcement actions under the securities laws.

Summary of the Enforcement Actions

In addition to the monetary payments, the firms are also required to comply with significant requirements that dramatically reform their future practices, including separating the research and investment banking departments at the firms, how research is reviewed and supervised, and making independent research available to investors. The changes that the firms will be required to make are discussed below.

The enforcement actions allege that, from approximately mid-1999 through mid-2001 or later, all of the firms engaged in acts and practices that created or maintained inappropriate influence by investment banking over research analysts, thereby imposing conflicts of interest on research analysts that the firms failed to manage in an adequate or appropriate manner. In addition, the regulators found supervisory deficiencies at every firm. The enforcement actions, the allegations of which were neither admitted nor denied by the firms, also included additional charges:

- ▶ CSFB, Merrill Lynch, and SSB issued fraudulent research reports in violation of Section 15(c) of the Securities Exchange Act of 1934 as well as various state statutes;
- ▶ Bear Stearns, CSFB, Goldman, Lehman, Merrill Lynch, Piper Jaffray, SSB, and UBS Warburg issued research reports that were not based on principles of fair dealing and good faith and did not provide a sound basis for evaluating facts, contained exaggerated or unwarranted claims about the covered companies, and/or contained opinions for which there were no reasonable bases in violation of NYSE Rules 401, 472 and 476(a)(6), NASD Rules 2110 and 2210, as well as state ethics statutes;
- ▶ UBS Warburg and Piper Jaffray received payments for research without disclosing such payments in violation of Section 17(b) of the Securities Act of 1933, as well as NYSE Rules 476(a)(6), 401 and 472 and NASD Rules 2210 and 2110. Those two firms, as well as Bear Stearns, J.P. Morgan, and Morgan Stanley, made undisclosed payments for research in violation of NYSE Rules 476(a)(6), 401 and 472 and NASD Rules 2210 and 2110 and state statutes; and
- ▶ CSFB and SSB engaged in inappropriate spinning of “hot” Initial Public Offering (IPO) allocations in violation of SRO rules requiring adherence to high business standards and just and equitable principles of trade, and the firms’ books and records relating to certain transactions violated the broker/dealer recordkeeping provisions of Section 17(a) of the Securities Exchange Act of 1934 and SRO rules (NYSE Rule 440 and NASD Rule 3110).

Under the terms of the settlement, an injunction will be entered against each of the firms, enjoining it from violating the statutes and rules that it is alleged to have violated.

Today’s enforcement actions will also reform industry practices regarding the relationship between investment banking and research and will bolster the integrity of equity research. Among other significant reforms included in these actions are the following:

- ▶ To ensure that stock recommendations are not tainted by efforts to obtain investment-banking fees, research analysts will be insulated from investment banking pressure. The

firms will be required to sever the links between research and investment banking, including prohibiting analysts from receiving compensation for investment banking activities, and prohibiting analysts’ involvement in investment banking “pitches” and “roadshows.” Among the more important reforms:

- ▶ The firms will physically separate their research and investment banking departments to prevent the flow of information between the two groups.
- ▶ The firms’ senior management will determine the research department’s budget without input from investment banking and without regard to specific revenues derived from investment banking.
- ▶ Research analysts’ compensation may not be based, directly or indirectly, on investment banking revenues or input from investment banking personnel, and investment bankers will have no role in evaluating analysts’ job performance.
- ▶ Research management will make all company-specific decisions to terminate coverage, and investment bankers will have no role in company-specific coverage decisions.
- ▶ Research analysts will be prohibited from participating in efforts to solicit investment-banking business, including pitches and roadshows. During the offering period for an investment-banking transaction, research analysts may not participate in roadshows or other efforts to market the transaction.
- ▶ The firms will create and enforce firewalls restricting interaction between investment banking and research except in specifically designated circumstances.
- ▶ To ensure that individual investors get access to objective investment advice, the firms will be obligated to furnish independent research. For a five-year period, each of the firms will be required to contract with no fewer than three independent research firms that will make available independent research to the firm’s customers. An independent consultant for each firm will have final authority to procure independent research.
- ▶ To enable investors to evaluate and compare the performance of analysts, research analysts’ historical ratings will be disclosed. Each firm will make its analysts’ historical ratings and price target forecasts publicly available.

Further, seven of the firms will collectively pay \$80 million for investor education. The SEC, NYSE, and NASD have authorized that \$52.5 million of these funds be put into an Investor Education Fund that will develop and support programs designed to equip investors with the knowledge and skills

necessary to make informed decisions. The remaining \$27.5 million will be paid to state securities regulators and will be used by them for investor education purposes.

In addition to the other restrictions and requirements imposed by the enforcement actions, the ten firms have collectively entered into a voluntary agreement restricting allocations of securities in hot IPOs — offerings that begin trading in the aftermarket at a premium — to certain company executive officers and directors, a practice known as “spinning.” This will promote fairness in the allocation of IPO shares and prevent firms from using these shares to attract investment-banking business.

Remarking on the historic settlement, SEC Chairman Donaldson said, “The hallmark of our business and financial system is that the rule of law must prevail and when wrongdoing occurs, it must be confronted and punished. Today we do just that.” Mr. Donaldson went on to say that, “These cases reflect a sad chapter in the history of American business — a chapter in which those who reaped enormous benefits from the trust of investors profoundly betrayed that trust. These cases also represent an important new chapter in our ongoing efforts to restore investors’ faith in the fairness and integrity of our markets.”

New York Attorney General Eliot Spitzer said, “This global settlement is one of the largest effected by securities regulators to date. It fulfills our promise to help restore integrity to the marketplace and investor confidence in our system. The wide-ranging structural reforms to firms’ research operations will empower investors to use securities research in a practical and meaningful way when making investment decisions.”

“This case was a model for state-federal regulatory cooperation to benefit investors. As they did with microcap fraud and day trading, the states helped to spotlight a problem and worked with national regulators on enforcement actions and market-wide rule changes,” said NASAA President Christine Bruenn. “We’re hopeful that the settlement announced today will help restore the faith and trust of wary and cynical investors.” Ms. Bruenn added that, “If the Street follows both the spirit and the letter of this settlement, it will change the way business is done on Wall Street. Investors — not investment banking fees — will come first. And analysts will be beholden to the truth, not the IPO business.”

NASD Chairman and CEO Robert Glauber said, “Today marks an ending, but even more, a beginning. Because in finalizing this settlement, we take a giant step on the road to restoring and renewing investor confidence. The final resolution we announce today is a good one for everyone, everywhere, who has a stake in the integrity of the U.S. capital markets.”

“This historic settlement establishes a clear bright line — a banker is a banker and an analyst is an analyst. The two shall never cross,” said NYSE Chairman and CEO Dick Grasso. “The partnership between the SEC, state regulators, the SROs, and our lawmakers remains the best and most effective system of market regulation and the global settlement reflects that. Our capital markets model is the most successful in the world and I am absolutely certain that we will come out of this period with a stronger system that puts the interests of the investing public first.”

The Securities and Exchange Commission, NASD, and the New York Stock Exchange Permanently Bar Henry Blodget From the Securities Industry and Require \$4 Million Payment

The Securities and Exchange Commission, NASD, and the New York Stock Exchange — following a coordinated investigation of allegations of undue influence of investment banking interests on research analysts at brokerage firms — announced that Henry Blodget, a former managing director at Merrill Lynch, Pierce, Fenner & Smith, Incorporated, and the senior research analyst and group head for the Internet sector at the firm, will be censured and permanently barred from the securities industry, and will make a total payment of \$4 million to settle the charges against him.

The regulators charged that, among other things, Blodget, of New York City, issued fraudulent research under Merrill Lynch’s name, as well as research in which he expressed views that were inconsistent with privately expressed negative views. Blodget’s conduct constituted violations of the federal securities laws and NASD and NYSE rules, which require that, among other things, published research reports have a reasonable basis, present a fair picture of the investment risks and benefits, and not make exaggerated or unwarranted claims.

In particular, the SEC alleges, and the NASD and NYSE found that, during 1999-2001, Blodget:

- ♦ aided and abetted violations of antifraud provisions of the federal securities laws and violated SRO rules by issuing research reports on one Internet company (GoTo.com) that were materially misleading because they were contrary to privately expressed negative views; and
- ♦ issued research reports on six other Internet companies (InfoSpace, Inc., 24/7 Media, Inc., Lifeminders, Inc., Homestore.com, Inc., Excite@Home, and Internet Capital Group, Inc.) that were not based on principles of fair dealing and good faith and did not provide a sound basis for evaluating facts regarding those companies, contained exaggerated or unwarranted claims about those companies, and/or contained opinions for which there was no reasonable basis.

Blodget neither admits nor denies these allegations, facts, conclusions, and findings.

Of Blodget's \$4 million total payment, \$2 million constitutes a penalty and \$2 million constitutes disgorgement. Blodget's \$4 million payment is specified in a Final Judgment that, if approved by the Court, will be entered in an action filed by the SEC in Federal District Court in New York City. The entire \$4 million will be put into a distribution fund for the benefit of Merrill Lynch customers. Blodget has agreed that he will not seek reimbursement or indemnification for the penalties he pays. In addition, he has agreed that he will not seek a tax deduction or tax credit with regard to any federal, state or local tax for any penalty amounts he pays under the settlement.

Under the terms of the settlement, the Final Judgment in the SEC's Federal Court action will enjoin Blodget from violating the statutes and rules he is alleged to have violated.

The Securities and Exchange Commission, New York Attorney General's Office, NASD, and the New York Stock Exchange Permanently Bar Jack Grubman and Require \$15 Million Payment

The Securities and Exchange Commission, the New York Attorney General's Office, NASD, and the New York Stock Exchange — following a coordinated investigation of allegations of undue influence of investment banking interests on research analysts at brokerage firms — announced that Jack Grubman will be censured and permanently barred from the securities industry, and will pay a total of \$15 million to settle their charges against him. The regulators charged that Grubman, of New York City, a former managing director of Salomon Smith Barney Inc. (SSB), the lead research analyst for SSB's telecommunications (telecom) sector and the linchpin for SSB's investment banking efforts in the telecom sector, issued fraudulent, misleading, and otherwise flawed research reports under SSB's name. As a result, Grubman aided and abetted SSB's violations of antifraud provisions of the federal securities laws and violated NASD and NYSE rules as well as New York State law.

In particular, the regulators found that, during 1999-2001, Grubman:

- ▶ issued several fraudulent research reports on two telecom stocks (Focal Communications and Metromedia Fiber) that contained misstatements and omissions of material facts about the companies, contained recommendations contrary to the actual views regarding the companies, overlooked or minimized the risk of investing in these companies, and predicted substantial growth in the companies' revenues and earnings without a reasonable basis;

- ▶ issued numerous research reports on six telecom stocks (Focal Communications, RCN Communications, Level 3 Communications, XO Communications, Adelphia Business Solutions, and Williams Communications Group) that were not based on principles of fair dealing and good faith, and did not provide a sound basis for evaluating facts regarding these companies' business prospects, contained exaggerated and unwarranted claims about these companies, and/or contained opinions for which there was no reasonable basis; and
- ▶ published a research report in November 1999 upgrading AT&T that contained omissions of material facts and was misleading.

Grubman neither admits nor denies these allegations, facts, conclusions, and findings.

Grubman's \$15 million payment is specified in a Final Judgment that, if approved by the Court, will be entered in an action filed by the SEC in Federal District Court in New York City. Of the \$15 million total payment, half (\$7.5 million) will be authorized by the SEC, NYSE, and NASD to be added to a distribution fund for the benefit of SSB customers; that fund will be created in a separate action brought against SSB. The remaining \$7.5 million penalty will be paid to the New York Attorney General.

Under the terms of the settlement, Grubman agrees that he will not seek reimbursement or indemnification for any amounts he pays under the settlement. In addition, he agrees that he will not seek a tax deduction or tax credit with regard to any federal, state, or local tax for any penalty amounts he pays under the settlement.

Under the terms of the settlement, the Final Judgment in the SEC's Federal Court action will enjoin Grubman from violating the statutes and rules he is alleged to have violated.

NASD Fines Altegris Investments for Hedge Fund Sales Violations

Firm Failed to Adequately Disclose Risks of Investing in Hedge Funds

NASD announced that it has censured and fined Altegris Investments, Inc., of La Jolla, California, \$175,000 for failing to disclose the risks associated with hedge funds when marketing them to investors. Some of the firm's sales literature also contained exaggerated and unwarranted statements about these products. NASD also censured and fined Altegris' Chief Compliance Officer, Robert Amedeo, \$20,000 for failing to adequately supervise the firm's advertising practices in this area.

NASD found that between October 2002 and February 2003, Altegris distributed 26 different pieces of hedge fund sales literature to its customers. Each of these marketing pieces failed to include important disclosures regarding specific risks of investing in hedge funds and made unbalanced presentations about the particular hedge funds that failed to provide investors with a sound basis for evaluating whether to invest in these hedge fund products.

"Communications by our members with the investing public must provide a sound basis for evaluating an investment and must adequately disclose the risks," said Mary L. Schapiro, NASD's Vice Chairman and President Regulatory Oversight. "This is no less true for hedge funds than for any other investment product. Today's enforcement action is part of NASD's broader review of hedge fund sales practices and reinforces NASD's commitment to ensuring adherence to the highest standards of good faith and fair dealing."

Among the items that Altegris failed to disclose about the specific hedge funds were the following:

- ▶ The fund is speculative and involves a high degree of risk.
- ▶ The fund may be leveraged.
- ▶ The fund's performance can be volatile.
- ▶ An investor could lose all or a substantial amount of his or her investment.
- ▶ The fund manager has total trading authority over the fund. The use of a single advisor applying generally similar trading programs could mean lack of diversification and, consequentially, higher risk.
- ▶ There is no secondary market for the investor's interest in the fund and none is expected to develop.
- ▶ There may be restrictions on transferring interests in the fund.
- ▶ The fund's high fees and expenses may offset the fund's trading profits.
- ▶ A substantial portion of the trades executed for the fund takes place on foreign exchanges.

Although some or all of these risks may have been described in offering documents to investors, such disclosure did not cure these violations of NASD's advertising rules. These rules require that each piece of sales literature independently comply with the rules' standards.

Two of the pieces of sales literature distributed by Altegris were research reports on specific hedge funds that were written by a registered representative at another member firm. These research reports contained several exaggerated and unwarranted statements and claims. For example:

- ▶ The first research report characterized the hedge fund as "an ideal fund for conservative investors." However, the Offering Memorandum indicated that the fund has a limited operating history, is speculative, and involves a high degree of risk.
- ▶ In the second research report, the author made the following unwarranted projection of future performance: "Is he likely to continue to give us 12-14% years over the next 4-5 years? In my opinion, I think it is likely he will."
- ▶ The second research report inaccurately stated that the hedge fund was "subject to NASD inspection" and that "the NASD will audit the fund as well." The research report went on to say, "For some, this layer of regulatory oversight is comforting." The statement is false since NASD does not and will not audit the hedge fund.

A hedge fund can be described generally as a private and unregistered investment pool that accepts investors' money and employs hedging and arbitrage techniques using long and short positions, leverage and derivatives, and investments in many markets. This enforcement action is NASD's first in its recent and ongoing focus on hedge funds. As a result of a recent review of members that sell hedge funds and registered products (closed-end funds) that invest in hedge funds, NASD has become concerned that some members may not be fulfilling their sales-practice obligations when selling and marketing these instruments, especially to retail customers. As part of this focus, NASD issued an Investor Alert in August of 2002 and a *Notice to Members* in February of 2003 advising members of their suitability obligation to investors whenever recommending or selling hedge.

In settling this matter, Altegris and Amedeo neither admitted nor denied the allegations, but consented to the entry of findings. Altegris also agreed to obtain pre-approval from NASD's Department of Advertising Regulation before distributing future advertisements and sales literature.