Disciplinary Actions

Disciplinary Actions Reported For October

NASD Regulation, Inc. (NASD Regulation[SM]) has taken disciplinary actions against the following firms and individuals for violations of National Association of Securities Dealers, Inc. (NASD®) rules; federal securities laws, rules, and regulations; and the rules of the Municipal Securities Rulemaking Board (MSRB). Unless otherwise indicated, suspensions will begin with the opening of business on Monday, October 18, 1999. The information relating to matters contained in this *Notice* is current as of the end of September 27, 1999.

Firm Fined, Individuals Sanctioned

LT Lawrence & Co., Inc. (CRD #31956, New York, New York), Lawrence Principato (CRD #1676061, Registered Principal, New York, New York), and **Todd Edward Roberti (CRD #1693023, Registered Principal, Florham Park, New Jersey)** submitted an Offer of Settlement pursuant to which the firm was fined $23,000, and Principato and Roberti were each fined $25,000 and suspended from association with any NASD member in any capacity for one year. Without admitting or denying the allegations, the firm, Principato, and Roberti consented to the described sanctions and to the entry of findings that the firm failed to file, or to file in a timely manner, complaints required to be reported on Form U-4 or Form U-5 and failed to report disclosure event items and quarterly reported complaints. In addition, the firm failed to develop a written training plan aligned with the business activities of the firm, failed to ensure that covered registered representatives participated in the training program, and exceeded its inventory limitations to which it was obligated in a Restrictive Agreement. The findings also stated that Roberti failed to create either written supervisory procedures or a supervisory system reasonably designed to achieve compliance with applicable securities laws, regulations, and NASD rules. Roberti also failed to prepare and maintain procedures setting forth the titles, registration statuses, dates, and responsibilities of supervisory personnel relating to the business lines of the firm. Principato failed to supervise individuals who were named and/or functioned as chief compliance officers of the firm to ensure that they properly carried out their responsibilities and should have known that his delegation of supervisory responsibility to these individuals was unreasonable based upon the nature of the firm's business, the short tenure of each chief compliance officer, the limited staff available to each officer, and the number of customer complaints that were received by the firm in connection with the firm's sales activities. By his failure to supervise the firm's chief compliance officers, Principato failed to ensure that customer complaints alleging unauthorized trading were timely investigated and that appropriate action was taken against the registered persons involved in the trades at issue. **(NASD Case #C3B990014)**

Firm And Individual Fined

The Minneapolis Company, Inc. (CRD #38859, Melville, New York) and **Susan Georgette Penn (CRD #1104422, Registered Principal, Huntington Station, New York)** submitted a Letter of Acceptance, Waiver, and Consent pursuant to which they were censured, fined $29,789, jointly and severally, and required to demonstrate that an offer of rescission had been made to purchasers of securities. Without admitting or denying the allegations, the respondents consented to the described sanctions and to the entry of findings that the firm, acting through Penn, effected transactions in a penny stock without complying with requirements of the Securities and Exchange Commission (SEC) penny stock rules. In addition, the firm, acting through Penn, violated the terms of its NASD Membership Agreement and NASD rules by effecting penny stock transactions. **(NASD Case #C3A990051)**

Firms Fined

Baird, Patrick & Co., Inc. (CRD #1149, New York, New York) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which the firm was censured and fined $25,000. Without admitting or denying the allegations, the firm consented to the described sanctions and to the entry of findings that it reported securities transactions in violation of applicable securities laws, regulations, and NASD rules regarding trade reporting, and reported transactions in Nasdaq National Market® securities, Nasdaq SmallCap® securities, eligible securities, and OTC equity securities as late to the Automated Confirmation Transaction Service℠ (ACT℠) in violation of applicable securities laws and regulations regarding trade reporting. The findings also stated that the firm prepared order tickets with inaccurate time stamps and failed to maintain the order tickets for other transactions. In addition, the NASD determined that the firm failed to establish, maintain, and enforce adequate written supervisory procedures with respect to quality of markets and order handling rules. **(NASD Case #C10990137)**

Cambridge Capital, L.L.C. (CRD #41464, Garden City, New York) submitted a Letter of Acceptance, Waiver, and Consent pursuant to 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 identify an aggregated transaction report in Nasdaq National Market securities by including the appropriate ".B" modifier, failed to properly report Nasdaq National Market, Nasdaq SmallCap, and Consolidated Quotation System℠ (CQS℠) transactions through ACT in violation of applicable securities laws and regulations regarding trade reporting. The findings also stated that the firm executed transactions for the firm's proprietary account and a transaction for a restricted account through the Small Order Execution System℠ (SOES℠); failed to report riskless principal transactions in Fixed Income Pricing System℠ (FIPS®) securities; and failed to establish, maintain, and enforce adequate written supervisory procedures that included the Bank Secrecy Act, SOES, transaction and volume reporting, front running, telemarketing activities, customer communications, and MSRB rules. In addition, the NASD determined that the firm, in connection with the Firm Element of the Continuing Education requirement, failed to maintain adequate records documenting the content of the training and completion of the program by the firm's covered registered persons. **(NASD Case #C10990149)**

Tri-Star Financial (CRD #32458, Houston, Texas) submitted a Letter of Acceptance, Waiver, and Consent pursuant to 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 ensure that certain persons actively engaged in the firm's investment banking or securities business were properly registered as general securities representatives with the NASD and permitted a registered person to continue to perform duties as a registered person when such person was deemed inactive for failing to complete the Regulatory Element of the Continuing Education requirement. The findings also stated that the firm failed to designate to the NASD a properly registered limited financial and operations principal. **(NASD Case #C06990014)**

Individuals Barred Or Suspended

David Alvarado (CRD #2560284, Registered Principal, Setauket, New York) submitted an Offer of Settlement pursuant to which he was fined $25,000, suspended from association with any NASD member in any capacity for one year, and required to pay $213,906 in restitution to public customers. Without admitting or denying the allegations, Alvarado consented to the described sanctions and to the entry of findings that he made material misrepresentations, omitted to disclose material facts, and predicted the future prices of speculative securities in connection with the offer and sale of securities. The findings also stated that Alvarado effected transactions in customer accounts without having obtained the customers' prior authorization, and in connection with an unauthorized transaction, represented that he would sell the purchased securities if the price declined to a specified price but failed to do so.

Alvarado's suspension began October 1, 1999, and will conclude at the close of business on September 29, 2000. **(NASD Case #C3A990012)**

Peter Anthony Babajko (CRD #2018182, Registered Representative, Brooklyn, New York) submitted an Offer of Settlement pursuant to which he was censured, fined $75,000, and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Babajko consented to the described sanctions and to the entry of findings that he employed an impostor to take the Series 7 exam on his behalf. The findings also stated that Babajko failed to respond to NASD requests to appear for a staff interview and to produce documents. **(NASD Case #C10980063)**

Richard Irwin Balber (CRD #1507939, Registered Principal, Hollywood, Florida) submitted an Offer of Settlement pursuant to which he was fined $25,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Balber consented to the described sanctions and to the entry of findings that he failed to respond to an NASD request to appear and give testimony. **(NASD Case #C10990076)**

Clifford Wayne Bernstein (CRD #1871597, Registered Representative, Paramus, New Jersey) submitted an Offer of Settlement pursuant to which he was censured, fined $10,000, and suspended from association with any NASD member in any capacity for one year. Without admitting or denying the allegations, Bernstein consented to the described sanctions and to the entry of findings that he participated in the execution of unauthorized purchases of securities in public customer accounts. The findings also stated that the gross amount of the purchases in one customer account exceeded $217,000. **(NASD Case #C8A970017)**

Christian William Blake (CRD #2216784, Registered Representative, Brooklyn, New York) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was censured, fined $5,000, suspended from association with any NASD member in any capacity for 10 business days, and ordered to requalify as a general securities representative. If Blake fails to requalify, he will be suspended from acting in such capacity until the exam is completed. Without admitting or denying the allegations, Blake consented to the described sanctions and to the entry of findings that he purchased shares of a security in the account of public customers without their prior knowledge or consent. **(NASD Case #C10990134)**

Janice Sue Borth (CRD #2828975, Registered Representative, Monaville, West Virginia) was fined $25,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Borth failed to respond to NASD requests for information concerning misappropriation. **(NASD Case #C9A990013)**

Sameer Yousuf Butt (CRD #2693405, Registered Representative, New York, New York) was fined $15,000, suspended from association with any NASD member in any capacity for 60 days, and ordered to requalify by exam in all capacities before re-associating with any member firm. The sanctions were based on the findings that Butt executed an unauthorized transaction for the account of a public customer. **(NASD Case #C10990039)**

David Stanley Callan (CRD #1747734, Registered Representative, Chalfont, Pennsylvania) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was censured, fined $25,000, and suspended from association with any NASD member in any capacity for six months. Without admitting or denying the allegations, Callan consented to the described sanctions and to the entry of findings that he recommended and engaged in purchase and sale transactions in the accounts of public customers and did not have reasonable grounds for believing his recommendations and resultant transactions were suitable for the customers on the basis of their financial situation, investment objectives, and needs. The findings also stated that Callan caused false information regarding a customer's net worth to be entered on her New Account Form and pursuant to verbal authority, exercised discretion in the customer's account without having obtained prior written authorization from the customer and prior written acceptance of the account as discretionary by his member firm. **(NASD Case #C9A990036)**

Gregory Alan Casady (CRD #2029799, Registered Principal, Kansas City, Missouri) was fined $80,000, suspended from association with any NASD member in any capacity for 30 days for free-riding in his personal account, and barred from association with any NASD member in any capacity for unauthorized trading and for failing to respond to NASD requests for information. The sanctions were based on findings that Casady purchased and sold securities for public customers without their approval or consent, engaged in free-riding in his personal securities account, and failed to respond to NASD requests for information. **(NASD Case #C04980047)**

Thomas Owen Combs (CRD #51651, Registered Representative, Memphis, Tennessee) was fined $120,000, barred from association with any NASD member in any capacity, and ordered to pay $4,229.04, plus interest, in restitution to a member firm. The sanctions are based on findings that Combs received checks totaling $4,000 from a public customer for investment in variable annuity contracts, failed to follow her instructions, deposited the checks in his own account, and failed to secure the variable annuity contracts, thereby converting the customer's funds to his own use. The findings also stated that Combs effected unauthorized transactions on behalf of another public customer and misused her funds in purchasing a variable life insurance policy. Combs also failed to respond to NASD requests for information. **(NASD Case #C05980043)**

Michael Anthony Doyle (CRD #71513, Registered Principal, Cape Elizabeth, Maine) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was censured, fined $25,000, and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Doyle consented to the described sanctions and to the entry of findings that he participated in private securities transactions involving public customers who invested a total of $295,000 without giving prior written notice to, or receiving prior written permission from, his member firm. **(NASD Case #C11990034)**

Alvaro Fabian Dumancella (CRD #2489579, Registered Principal, Baldwin, New York) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was censured, fined $2,500, and suspended from association with any NASD member in any capacity for 10 business days. Without admitting or denying the allegations, Dumancella consented to the described sanctions and to the entry of findings that he intervened in a conversation between a cold calling representative and a prospective client and gave the name of the supervising registered representative when the prospective client asked for the name of the cold caller. **(NASD Case #C10990132)**

Louis Richard Facchini, Jr. (CRD #2372533, Registered Representative, New York, New York) submitted an Offer of Settlement pursuant to which he was censured, fined $2,500, and suspended from association with any NASD member in any capacity for 30 days. Without admitting or denying the allegations, Facchini consented to the described sanctions and to the entry of findings that he participated in the execution of unauthorized purchases of securities in the account of a public customer. The findings also stated that the gross amount of purchases in the customer's account exceeded $87,000. **(NASD Case #C8A970017)**

Harold Bailey Gallison, Jr. (CRD #1040211, Registered Principal, Las Vegas, Nevada) was censured, fined $100,000, barred from association with any NASD member in any principal or supervisory capacity, and ordered to requalify by exam in any capacity. The SEC upheld the NASD sanctions following appeal of a February 1998 National Adjudicatory Council (NAC) decision. The findings stated that Gallison failed to properly establish, maintain, and enforce written supervisory procedures concerning registered personnel in a branch office. **(NASD Case #CMS950110)**

David Joseph Gariano (CRD #1559378, Registered Representative, Burlington, North Carolina) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was fined $35,000, and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Gariano consented to the described sanctions and to the entry of findings that he failed to amend properly his Form U-4 as required to disclose the existence of tax liens that had been placed against him. The findings also stated that Gariano failed to respond to NASD requests for information. **(NASD Case #C07990058)**

Adam Goldman (CRD #1492830, Registered Representative, Brooklyn, New York) was fined $75,500 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Goldman stole company checks from his member firm, wrote checks payable to himself in the total amount of $4,100, forged the signature of an official of the firm on each of the checks, and cashed them, thereby converting $4,100 from his member firm. In addition, Goldman failed to respond to NASD requests for information. **(NASD Case #C10990040)**

Ronald Mark Harris (CRD #1907496, Registered Principal, Mooreland, Oklahoma) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was fined $250,000, barred from association with any NASD member in any capacity, and ordered to pay $259,143.20, plus interest, in restitution. Without admitting or denying the allegations, Harris consented to the described sanctions and to the entry of findings that he received funds totaling $259,143.20 from public customers for investment purposes, failed to execute purchases of securities on the customers' behalf, and instead, deposited the funds in an account that he controlled, thereby converting the funds to his own use and benefit, without the customers' knowledge or consent. **(NASD Case #C05990036)**

Dirk Paul Hausauer (CRD #1529323, Registered Representative, Bismarck, North Dakota) was fined $25,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Hausauer failed to respond to NASD requests for information. **(NASD Case #C04990021)**

Hannibal Kwewe Hosang (CRD #2570874, Associated Person, Staten Island, New York) was fined $25,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Hosang failed to respond to NASD requests for information and to appear for testimony. **(NASD Case #C10980085)**

Leonard Charles Hotkowski (CRD #2631855, Registered Representative, Sarver, Pennsylvania) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was fined $20,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Hotkowski consented to the described sanctions and to the entry of findings that he signed the names of public customers to applications for variable life insurance without the customers' knowledge or consent. **(NASD Case #C9A990043)**

David Macks Hutchinson (CRD #2923655, Registered Representative, Baltimore, Maryland) was fined $25,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Hutchinson failed to respond to NASD requests for information. **(NASD Case #C9A990014)**

Michael Anthony Iavarone, Sr. (CRD #2377723, Registered Representative, Holbrook, New York) submitted an Offer of Settlement pursuant to which he was censured, fined $7,500, and suspended from association with any NASD member in any capacity for 10 business days. Without admitting or denying the allegations, Iavarone consented to the described sanctions and to the entry of findings that he executed unauthorized transactions which exceeded $22,000 in the accounts of public customers. **(NASD Case #C8A970017)**

Ellis Keith Ings (CRD #2411137, Registered Representative, New York, New York) was fined $25,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Ings failed to respond to NASD requests for information. **(NASD Case #C11980022)**

Gary Paul Johnson (CRD #1607866, Registered Representative, Calabasas, California) submitted an Offer of Settlement pursuant to which he was fined $25,000 and suspended from association with any NASD member in any capacity for two years. Without admitting or denying the allegations, Johnson consented to the described sanctions and to the findings that he failed to respond to NASD requests for information and testimony. **(NASD Case #C02990041)**

Charles Paul Kateridge (CRD #2481595, Registered Representative, Huntington Square, New York) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was fined $15,000, suspended from association with any NASD member in any capacity for 30 business days, and ordered to requalify as a general securities representative. If Kateridge fails to requalify, he will be suspended until such examination is successfully completed. In addition, Kateridge is ordered to pay restitution in the amount of $20,000 to a public customer under terms negotiated with, and acceptable to, the customer. Without admitting or denying the allegations, Kateridge consented to the described sanctions and to the entry of findings that he engaged in trading in the account of a public customer that was excessive in light of the customer's financial situation and investment objectives. Kateridge also misrepresented the significance of an activity letter when he told the customer that he had to sign the letter in order to make money. **(NASD Case #C10990131)**

Leslie Rhodes Koonce (CRD #1131758, Registered Representative, South San

Francisco, California) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was fined $5,000 and suspended from association with any NASD member in any capacity for 60 days. Without admitting or denying the allegations, Koonce consented to the described sanctions and to the entry of findings that he signed the name of a public customer to an authorization to release medical information and submitted the authorization to an insurance company and signed another public customer's name to an Authorization to Transfer Retirement account form and submitted it to a member firm.

Koonce's suspension began with the opening of business on October 1, 1999, and will conclude at the close of business on November 29, 1999. **(NASD Case #C01990015)**

Dean Llewellyn Kroenke (CRD #2192632, Registered Representative, Rochester, Minnesota) was fined $62,200 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Kroenke persuaded a public customer to cancel one or more life insurance policies and apply the cash surrender value to the purchase of a new variable life insurance policy. Kroenke instructed the customer to issue a check payable to him in the amount of $1,440 to be applied to the new policy, and, instead, deposited the check in his own account, converting the funds to his own use. In addition, Kroenke failed to respond to NASD requests for information. **(NASD Case #C04990012)**

Charles Sheldon Lichter (CRD #1331488, Registered Principal, Woodland Hills, California) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was censured, fined $5,000, and suspended from association with any NASD member in any capacity for one year. Without admitting or denying the allegations, Lichter consented to the described sanctions and to the entry of findings that he participated in private securities transactions without providing prior written notice to his member firm describing the proposed transactions and his proposed role therein. **(NASD Case #C02990048)**

Martin R. Linzmaier (CRD #3072427, Registered Representative, Garden City, Michigan) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was fined $5,000 and barred from association with any NASD member. Without admitting or denying the allegations, Linzmaier consented to the described sanctions and to the entry of findings that he failed to disclose on his Form U-4 that he had been convicted of a felony. **(NASD Case #C8A990064)**

Lewis Liu (CRD #2491191, Registered Representative, Chicago, Illinois) was fined $40,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Liu received $6,036.50 in cash from public customers as premium payments for life insurance policies, failed to apply $2,448.61 toward premium payments, and, instead, misused the $2,448.61, thereby commingling policyholder funds with his personal funds. Liu also failed to respond to NASD requests for information. **(NASD Case #C8A990031)**

Paul Matthew Lulic (CRD #2464573, Registered Representative, South St. Paul, Minnesota) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was fined $10,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Lulic consented to the described sanctions and to the entry of findings that he affixed the signatures of public customers to documents authorizing the transfer of the customers' accounts to another member firm, without the customers' knowledge or consent. **(NASD Case #C04990039)**

Gregory Paul Maggipinto (CRD #1042789, Registered Representative, San Jose California) was censured, fined $25,000, suspended from association with any NASD member in any capacity for six months, and required to requalify by exam in all capacities prior to association with a member firm. The NAC imposed the sanctions following the review of an appeal of a San Francisco District Business Conduct Committee (DBCC) decision. The decision became final following Maggipinto's dismissed appeal to the SEC. The sanctions were based on findings that Maggipinto effected unauthorized transactions in a public customer's account. **(NASD Case #C01970025)**

Alan Jerry Mandel (CRD #2044942, Registered Principal, New York, New York) submitted an Offer of Settlement pursuant to which he was fined $1,000, suspended from association with any NASD member as a general securities principal for six months, and required to requalify by exam as a general securities principal. If Mandel fails to requalify, he will be suspended from acting as a general securities principal until the exam is successfully completed. Without admitting or denying the allegations, Mandel consented to the described sanctions and to the entry of findings that, while acting as a sales supervisor, he received customer complaints about the sales practices of certain registered representatives at his member firm, reported this information to his superiors, but failed to follow up to ascertain what, if any, measures were taken by these senior managers to address the issues he had raised. **(NASD Case #C10970143)**

Edward Michael McKeown (CRD #1808724, Registered Representative, Santa Ana, California) was fined $10,000, suspended from association with any NASD member in any capacity for 60 days, ordered to disgorge $236.94 in ill-gotten gains, and ordered to requalify by exam as a general securities representative. The sanctions were based on findings that McKeown effected transactions in a public customer's account without the customer's knowledge, authorization, or consent and without the customer's oral or written discretionary authority. **(NASD Case #C02990015)**

Shirley Ann McKinney (CRD #1731628, Registered Principal, Naperville, Illinois) submitted an Offer of Settlement pursuant to which she was fined $25,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, McKinney consented to the described sanctions and to the entry of findings that she failed to respond to NASD requests for information and documentation. **(NASD Case #C8A990022)**

Patrick John McVicar (CRD #2182305, Registered Representative, Jersey City, New Jersey) was fined $65,560.61, suspended from association with any NASD member in any capacity for four years for unauthorized trading and for sending unapproved correspondence to a customer, barred from association with any NASD member in any capacity for failing to respond to NASD requests for information, and ordered to pay $15,000 in restitution to a member firm. The sanctions were based on findings that McVicar executed unauthorized purchase transactions in the account of a public customer, sent correspondence to the customer without the prior review or approval of his supervisor, and failed to respond to NASD requests for information. **(NASD Case #C05990011)**

Elie Mellul (CRD #2126020, Registered Principal, Great Neck, New York) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was censured, fined $50,000, barred from association with any NASD member in any capacity, and ordered to pay $39,192 in restitution to public customers. Without admitting or denying the allegations, Mellul consented to the described sanctions and to the entry of findings that he effected transactions in the accounts of public customers without their knowledge, consent, or authorization. The findings also stated that Mellul refused to cooperate with the NASD's request for information and/or documentation. **(NASD Case #C10990143)**

Eric Douglas Miltsch (CRD #2252444, Registered Representative, Pittsford, New York) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was fined $75,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Miltsch consented to the described sanctions and to the entry of findings that he caused $13,000 to be wired from his grandmother's savings account to his personal bank account and used the funds for his own benefit, without his grandmother's knowledge or consent. **(NASD Case #C8B990025)**

Frank Virgilio Mollo (CRD #2342435, Registered Representative, Long Beach, New York) submitted an Offer of Settlement pursuant to which he was fined $135,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Mollo consented to the described sanctions and to the entry of findings that he allowed an impostor to take the Series 7 exam on his behalf and permitted the passing score to be entered into the NASD Central Registration Depository (CRD℠) as his exam record. The findings also stated that Mollo failed to appear and give testimony in connection with the NASD investigation that led to the issuance of the complaint in this case. In addition, Mollo effected unauthorized transactions in public customer accounts. **(NASD Case #C10990085)**

Joel Dean Moore (CRD #2025699, Registered Principal, Redding, California) was censured, fined $25,000, suspended from association with any NASD member in any capacity for 10 business days, and required to requalify by exam as a general securities representative. The NAC imposed the sanctions following review of a San Francisco DBCC decision. The sanctions were based on findings that Moore made unsuitable recommendations to public customers in that he failed to understand the risks associated with a security he recommended and failed to make a customer-specific suitability determination prior to making recommendations. **(NASD Case #C01970001)**

Pasquale Morello (CRD #2469753, Registered Representative, Lynbrook, New York) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was fined $25,000, barred from association with any NASD member in any capacity, and ordered to disgorge $278,717.38 to the NASD. Without admitting or denying the allegations, Morello consented to the described sanctions and to the entry of findings that he had an impostor take and complete the Series 7 exam on his behalf. **(NASD Case #C10990145)**

John David Morgan (CRD #1593396, Registered Representative, Dunedin, Florida) was censured, fined $10,000, and suspended from association with any NASD member in any capacity for 10 business days. The NAC imposed the sanctions following review of an Atlanta DBCC decision. The sanctions were based on findings that Morgan effected unauthorized transactions in the account of a public customer.

Morgan's suspension commenced at the beginning of business on September 13, 1999, and concluded at the close of business on September 24, 1999. **(NASD Case #C07980019)**

Michael Brad Newman (CRD #2124869, Registered Representative, New York, New York) submitted an Offer of Settlement pursuant to which he was fined $15,000 and suspended from association with any NASD member in any capacity for 120 days. Without admitting or denying the allegations, Newman consented to the described sanctions and to the entry of findings that he made baseless and improper price predictions as to speculative securities to public customers, failed to execute a customer order to sell a security, and required that public customers purchase aftermarket shares as a condition of purchasing initial public offering units. **(NASD Case #CAF980031)**

Charles Christopher Ocera, Jr. (CRD #2690022, Registered Representative, Brooklyn, New York) submitted an Offer of Settlement pursuant to which he was fined $5,000, suspended from association with any NASD member in any capacity for one year, and ordered to provide testimony as previously requested by the NASD in connection with an investigation. Without admitting or denying the allegations, Ocera consented to the described sanctions and to the entry of findings that he failed to respond to an NASD request to provide testimony. **(NASD Case #C10990075)**

Steven Joseph Orandello (CRD #2098840, Registered Representative, Seaford, New York) submitted an Offer of Settlement pursuant to which he was fined $15,000, suspended from association with any NASD member in any capacity for 120 days, and prohibited for a period of one year from September 1, 1999, from associating with any NASD member unless that member shall agree in writing to tape record all conversations between Orandello and public customers. The firm must also agree to maintain those tape recordings for a period of three years. Without admitting or denying the allegations, Orandello consented to the described sanctions and to the entry of findings that he made baseless and improper price predictions as to speculative securities to public customers, failed to execute a customer order to sell a security, caused an unauthorized transaction to be made in the account of a customer, and required that customers purchase aftermarket shares as a condition of purchasing initial public offering units. **(NASD Case #CAF980031)**

Rafael Pinchas (CRD #1233899, Registered Representative, Hillcrest, New York) was censured, fined $199,821, and barred from association with any NASD member in any capacity. The SEC sustained the foregoing sanctions following appeal of a June 1998 NAC decision. The findings stated that Pinchas made unsuitable recommendations to public customers and engaged in excessive trading in the customers' accounts. **(NASD Case #C10930017)**

Benjamin Dewayne Pitts (CRD #1861540, Registered Representative, Baltimore, Maryland) submitted an Offer of Settlement pursuant to which he was fined $25,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Pitts consented to the described sanctions and to the entry of findings that he failed to respond to NASD requests for information. **(NASD Case #C9A990018)**

Susan Michelle Pribik (CRD #3073767, Registered Representative, Pittsburgh, Pennsylvania) was fined $25,000 and barred from association with any NASD member in any capacity.

The sanctions were based on findings that Pribik failed to respond to NASD requests for information regarding possible conversion of customer funds. **(NASD Case #C9A990001)**

Toney Lee Reed (CRD #372632, Registered Principal, Miami, Florida) was censured, fined $25,000, suspended from association with any NASD member as a principal for one year, and required to requalify by examination as a principal. In addition, Reed was required to pay $36,746.60 in restitution to public customers. This remand proceeding resulted from an order entered in November 1997 by the SEC denying the request of the NASD for reconsideration of the SEC's August 1996 order vacating the restitution order imposed on Reed and remanding the proceeding for a determination of Reed's financial ability to pay restitution to the NASD. The sanctions were based on findings that a former member firm, acting through Reed, failed to comply with the NASD's Mark-Up Policy in that it effected corporate securities transactions as principal with retail customers at prices that were unfair and unreasonable. In addition, the firm, acting through Reed, allowed individuals to function as representatives of the firm before the effective date of their registration with the NASD, and understated the assessable income on its 1989 Assessment Report. Also, the firm, acting through Reed, failed to comply with the NASD's Rules of Fair Practice relating to supervision in that a principal had not approved in writing certain correspondence and transactions in private direct participation programs. Furthermore, the firm, acting through Reed, failed to maintain inventory account statements, a principal trade blotter, and principal transaction order tickets. In addition, the firm, acting through Reed, failed to fully perform due diligence in connection with direct participation programs sold by the firm, maintained principal registrations for individuals who were not acting in a principal capacity, and permitted another individual to engage in the securities business of the firm and to receive commissions without being registered in any states.

Reed's suspension commenced with the opening of business June 20, 1994, and concluded at the close of business June 20, 1995. **(NASD Case #C06910024)**

Francis Emile Renner (CRD #2664117, Registered Representative, Brooklyn, New York) submitted an Offer of Settlement pursuant to which he was fined $25,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Renner consented to the described sanctions and to the entry of findings that he failed to respond to NASD requests for documents and information. **(NASD Case #C10990068)**

Daniel Mathew Skjonsberg (CRD #1590579, Registered Representative, Seattle, Washington) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was fined $50,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Skjonsberg consented to the described sanctions and to the entry of findings that he obtained a total of $437,967 from public customers, a portion of which was intended for eventual investment in security products and the remainder to be held for the benefit of the customers. The findings stated that Skjonsberg deposited $411,141 of the funds into his checking account, thereby commingling customer funds with his own. **(NASD Case #C3B990028)**

Dolores Ann Stamps (CRD #1394755, Registered Representative, Fayetteville, Arkansas) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which she was fined $15,727.25 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Stamps consented to the described sanctions and to the entry of findings that she received $1,998 in monthly installments from a public customer, deposited the payments in an account she controlled, and was to draw on the account in six-month intervals to pay semi-annual premiums on a life insurance policy that she had sold to the customer. The findings stated that Stamps failed and neglected to pay the premiums, allowed the customer's insurance policy to lapse, and retained $1,145.45 until a later date, thereby converting that amount to her own use and benefit without the knowledge or consent of the customer. **(NASD Case #C05990037)**

Steven Ross Stecklow (CRD #2111105, Registered Representative, Roslyn, New York) submitted an Offer of Settlement pursuant to which he was fined $7,500 and suspended from association with any NASD member in any capacity for 90 days. Without admitting or denying the allegations, Stecklow consented to the described sanctions and to the entry of findings that he made improper price predictions as to speculative securities to public customers. The findings also stated that Stecklow solicited aftermarket shares of stock before the completion of the distribution of the initial public offering. **(NASD Case #CAF980031)**

Simuel Emanuel Stevenson, Jr. (CRD #1944019, Registered Representative, Staten Island, New York) submitted an Offer of Settlement pursuant to which he was fined $50,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Stevenson consented to the described sanctions and to the entry of findings that he arranged to have an impostor take the Series 7 exam on his behalf and permitted the passing score to be entered into CRD as his exam record. Stevenson also failed to appear and give investigative testimony that had been requested by the NASD. **(NASD Case #C10990066)**

Joseph Timothy Sword (CRD #1312600, Registered Principal, Conyngham, Pennsylvania) submitted an Offer of Settlement pursuant to which he was suspended from association with any NASD member in any capacity for two years and required to requalify by exam for any capacity in which he is to be registered after the end of the suspension period. Without admitting or denying the allegations, Sword consented to the described sanctions and to the entry of findings that he engaged in the sale of debt securities outside of the regular course or scope of his association with his member firms and failed to provide prior written notice to, or to receive the approval of, his member firms. **(NASD Case #C9A990019)**

Brian Keith Taylor (CRD #2079960, Registered Representative, Rockford, Illinois) was fined $25,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Taylor failed to respond to NASD requests for information and documents relating to his termination and allegations of private security transactions. **(NASD Case #C8A990034)**

Raymond Alvarez Valentino, II (CRD #2474078, Registered Representative, Los Angeles, California) was fined $25,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Valentino failed to respond to NASD requests for information. **(NASD Case #C02980086)**

Marc Andrew Varricchone (CRD #2262533, Registered Principal, Elmsford, New York) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was fined $65,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Varricchone consented to the described sanctions and to the entry of findings that he recommended and engaged in purchase and sale transactions in the account of a public customer and did not have reasonable grounds for believing that these recommendations and resultant transactions were suitable for the customer on the basis of his financial situation, investment objectives, and needs. The findings also stated that in connection with sales to numerous public customers, Varricchone intentionally or recklessly employed devices to defraud the customers by making untrue statements of material facts or omitting to state material facts necessary to make the statements, in light of the circumstances in which they were made, not misleading. In addition, Varricchone destroyed or hid documents from regulators so as to impede their compliance examinations at his member firm and made false statements to the regulators with respect to the use of sales scripts by the firm's employees. **(NASD Case #C9B990026)**

Thomas Edward Wadding (CRD #1340445, Registered Representative, Butler, Pennsylvania) submitted a Letter of Acceptance, Waiver, and Consent pursuant to which he was fined $10,000 and barred from association with any NASD member in any capacity. Without admitting or denying the allegations, Wadding consented to the described sanctions and to the entry of findings that he submitted documents to his member firm purporting to be copies of a premium check for $2,840.67 issued by a policyholder. Such documents were false in that the policyholder had not issued a check in that amount, or on that date, in payment of a premium. **(NASD Case #C9A990044)**

Allen Harvey Watford (CRD #1574596, Registered Representative, Charleston, South Carolina) was fined $100,000, barred from association with any NASD member in any capacity, and ordered to pay $55,260.08 in restitution to his former member firm. The sanctions were based on findings that Watford effected unauthorized transactions in the accounts of public customers and failed to respond to NASD requests for information. **(NASD Case #C07980065)**

Maurice Dana Wise (CRD #737189, Registered Principal, Hauppauge, New York) was fined

$330,000 and barred from association with any NASD member in any capacity. The sanctions were based on findings that Wise permitted a statutorily disqualified person to be associated with and participate in the management of his member firm without obtaining proper regulatory approvals, and failed to disclose on Form U-4 and MC-400 applications the person's business or financial activity with a non-member firm within 10 business days. In addition, Wise was found to have permitted non-exempt sales of a penny stock to public customers to be effected without the necessary suitability determinations and disclosures. He also failed to inquire and determine the applicability of the penny stock rules to sales of a common stock during the selling period, and failed to adequately supervise his member firm's sales staff to ensure adherence to requirements. Furthermore, Wise executed sales of a penny stock on behalf of public customers in violation of his member firm's restriction agreement with the NASD. Wise also engaged in an unregistered public distribution of a common stock, and effected and induced others to effect transactions at unfair and fraudulently excessive prices while failing to disclose on customers' confirmations that his member firm was acting as principal and the amount of remuneration it received. Wise also falsified his member firm's records to reflect that certain transactions were executed by a registered individual when, in fact, such transactions were executed by an unregistered individual. Wise also failed to adopt written supervisory procedures and systems that would have enabled his member firm to achieve compliance with the Regulatory and Firm Elements of the NASD's Continuing Education rules. **(NASD Case #C10970141)**

Decisions Issued

The following decisions have been issued by the DBCC or the Office of Hearing Officers and have been appealed to or called for review by the NAC as of September 10, 1999. The findings and sanctions imposed in the decision may be increased, decreased, modified, or reversed by the NAC. Initial decisions whose time for appeal has not yet expired will be reported in the next *Notices to Members*.

Howard Richard Perles (CRD #1174341, Registered Principal, Staten Island, New York) and **Laurence Mark Geller (CRD #1533947, Registered Representative, Demarest, New Jersey).** Perles was fined $25,000, suspended from association with any NASD member in any capacity for one year, and ordered to requalify by exam as a general securities representative. Geller was fined $25,000, and suspended from association with any NASD member in any capacity for 30 business days. The sanctions were based on findings that Perles and Geller engaged in prearranged (or wash and matched) trading and failed to reflect accurately the prearranged trades on the books and records of their respective firms.

The NASD Department of Enforcement has appealed this matter as to Perles and Geller to the NAC; Perles and Geller have cross-appealed this action to the NAC. The sanctions are not in effect pending consideration of the appeals. **(NASD Case #CAF980005)**

Marlowe Robert Walker, III (CRD #1328130, Registered Representative, Hauppauge, New York) was fined $200,000, barred from association with any NASD member in any capacity, and ordered to disgorge $11,250. The sanctions were based on findings that Walker associated with a member firm while subject to statutory disqualification, and submitted false, misleading, and inaccurate information to the NASD on his MC-400 application and Form U-4. In addition, Walker caused his member firm to make commission payments to him, a person subject to statutory disqualification, through a company he owned. Walker also made false statements during his on-the-record interview.

Walker has appealed this action to the NAC and the sanctions are not in effect pending consideration of the appeal. **(NASD Case #C10970141)**

Complaints Filed

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

James Edward Bassano (CRD #2736206, Registered Representative, North Bellmore, New York) was named as a respondent in an NASD complaint alleging that he effected transactions on the behalf of public customers without their authorization or consent. **(NASD Case #C02990053)**

Michael Caso (CRD #2222058, Registered Principal, Brooklyn,

New York) was named as a respondent in an NASD complaint alleging that he engaged in fraudulent conduct by misleading public customers into investing in securities by making materially false and misleading statements and omissions concerning the price and safety of the securities and employing other "boiler room" sales techniques such as telephone solicitations, high pressure sales tactics, and recommendations of speculative securities. The complaint alleges that Caso executed trades in the accounts of public customers without the authorization of the customers and failed to execute a customer request to liquidate his account and send him the proceeds. The complaint also alleges that Caso induced the purchase or sale of securities by means of manipulative, deceptive, and other fraudulent devices and contrivances and made a recommendation to a customer without reasonable grounds for believing that the recommendation was suitable for the customer based on his other security holdings, financial situation, and needs. Furthermore, the complaint alleges that Caso failed to respond to NASD requests for information and to appear for an on-the-record interview. **(NASD Case #CAF990019)**

Gale Reich Donovan (CRD #70260, Registered Representative, New York, New York) was named as a respondent in an NASD complaint alleging that she made unsuitable recommendations to a public customer in that she executed numerous option trades and trades on margin without consulting with the customer prior to each trade. The complaint also alleges that Donovan did not have a reasonable basis to believe that her recommendations and the resultant transactions were suitable in light of the customer's financial situation, investment objectives, and needs, and that her course of trading in the customer's account was excessive in light of the size, type, and frequency of the transactions as well as the customer's age, financial situation, needs, and stated investment objectives. The complaint alleges that Donovan exercised discretion in the customer's accounts without having obtained prior written authorization from the customer and prior written acceptance of the account as discretionary by her member firms. The complaint also alleges that Donovan solicited and signed her name to new account forms, solicited and completed order tickets, and earned approximately $5,400 in commissions while not properly registered with the NASD. The complaint further alleges that Donovan failed to respond to NASD requests to appear for an on-the-record interview. **(NASD Case #C10990142)**

Arthur Vincent Gunning, Jr. (CRD #2493535, Registered Representative, Brooklyn, New York) was named as a respondent in an NASD complaint alleging that he purchased and sold securities in the account of a public customer without the customer's prior knowledge or consent. The complaint also alleges that Gunning purchased warrants for the account of a public customer that exceeded the equity in the customer's account in contravention of the customer's instructions and without his prior knowledge, authorization, or consent. The complaint also alleges that Gunning effected transactions in, or induced the purchase or sale of, securities by means of manipulative, deceptive, or other fraudulent device or contrivance in that he made baseless and improper price and performance predictions in highly speculative investments without an adequate, accurate, or reasonable basis in fact. The complaint further alleges that Gunning guaranteed a customer against loss in an investment. **(NASD Case #C10990141)**

Albert Douglas Lassak (CRD #1633765, Registered Principal, West Palm Beach, Florida) was named as a respondent in an NASD complaint alleging that he engaged in unsuitable transactions in the account of a public customer. The complaint alleges that Lassak engaged in excessive trading, the use of margin and options, and the purchase and sale of speculative stocks in the customer's account. The complaint also alleges that Lassak effected transactions in the customer's account without her written authorization and without approval of the account as discretionary by his member firm. In addition, the complaint alleges that Lassak failed to respond to NASD requests for information. **(NASD Case #C07990062)**

Shailesh Babubhai Patel (CRD #2610523, Registered Principal, Huntington Beach, California) was named as a respondent in an NASD complaint alleging that he received $40,000 from public customers for investment purposes. Instead of using the funds to purchase bonds or any other type of investment, the complaint alleges that Patel used the funds for purposes other than for the benefit of the customers. **(NASD Case #C02990052)**

Doyle Lardell Randall, Sr. (CRD #2462237, Registered Representative, Dix Hills, New York) was named as a respondent in an NASD complaint alleging that he made misrepresentations and omissions of material fact to a public customer to induce the customer to purchase securities offered in an initial public offering. The complaint also alleges that Randall engaged in securities activities when he was not registered with the NASD and failed to appear for an on-the-record interview as requested by the NASD. **(NASD Case #C10990162)**

Edward Thomas Rush (CRD #812872, Registered Representative, Hampton Bays, New York) was named as a respondent in an NASD complaint alleging that he recommended and engaged in purchase and sale transactions in the IRA accounts of public customers and the personal account of one customer that resulted in losses of $131,188.40 and gross commissions paid of $102,108 when he did not have reasonable grounds for believing that these recommendations and resultant transactions were suitable for the customers on the basis of their financial situations, investment objectives, and needs. The complaint also alleges that Rush exercised discretion in the accounts without prior written authorization from the customers and prior written acceptance of the accounts as discretionary by his member firm. The complaint also alleges that Rush failed to respond to NASD requests for information. **(NASD Case #C05990043)**

Ali Safavi (CRD #1958071, Registered Representative, McLean, Virginia) was named as a respondent in an NASD complaint alleging that he caused loans to be applied against insurance policies of public customers without their knowledge or consent, changed the addresses of record on the policies, and received at least $215,133.28 in checks issued by his firm to the customers. The complaint also alleges that Safavi forged the customers' endorsements on the checks, and made the checks payable to himself or his wife, thereby converting the proceeds totaling at least $215,133.28 to his own use or benefit. In addition, the complaint also alleges that Safavi failed to respond to NASD requests for information. **(NASD Case #C07990060)**

Malek Paul Tawil (CRD #2329493, Registered Principal, Palm Beach Gardens, Florida) was named as a respondent in an NASD complaint alleging that he effected unauthorized transactions in the accounts of public customers without the prior knowledge or authorization of the customers. The complaint also alleges that Tawil failed to respond to NASD requests for information concerning unauthorized trades and other sales practice abuses. **(NASD Case #C07990053)**

Firm Expelled For Failing To Pay Fines, Costs, And/Or Provide Proof Of Restitution In Connection With Violations

JWE Securities, Inc. Danville, California (August 20, 1999)

Firms Suspended/Canceled

The following firms were suspended/canceled from membership in the NASD for failure to comply with formal written requests to submit financial information to the NASD. The actions were based on the provisions of NASD Rule 8210 and Article VII, Section 2 of the NASD By-Laws. The date the suspensions/cancellations 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.

A.S. Goldmen & Co., Inc., Atlanta, Georgia (August 31, 1999)

Kensington, Bentley & Barnes, Inc., Dallas, Texas (September 3, 1999 - September 10, 1999)

Spectrum Securities, Inc., Agoura Hills, California (September 3, 1999)

Tuschner & Company, Inc., Minneapolis, Minnesota (September 15, 1999)

Suspension Lifted

The NASD has lifted the suspension from membership on the dates shown for the following firm because it has complied with formal written requests to submit financial information.

Chadbourn Securities, Inc., Jacksonville, Florida (August 31, 1999)

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

Anthony DiMaria, Bronx, New York (September 16, 1999)

Raymond A. Frias, Merrick, New York (August 20, 1999)

Stephen K.M. Gourlay, Jr., Hicksville, New York (September 16, 1999)

James R. Laymac, Resewell, Georgia (August 20, 1999)

Pier Luccarelli, Fairfax, Virginia (August 20, 1999)

Bruce Dean Moutaw, Jr., San Diego, California (August 20, 1999)

Matthew J. Samul, Henderson, Nevada (August 20, 1999)

Edward J. Stock, Jr., Nesconset, New York (September 16, 1999)

NASD Regulation Charges Premier Capital Management, Firm President, And Broker With Stock Touting And Fraudulent Advertising

NASD Regulation announced that it issued a complaint charging Premier Capital Management, Inc., Dallas, TX; its president and owner, Bryan James O'Leary; and a former registered representative, Ryan Mark Reynolds, with fraud. Acting on behalf of Premier, O'Leary and Reynolds placed materially misleading advertisements in national publications, used a false research report to tout Continental Investment Corporation (OTCBB:CICG) and failed to disclose compensation received from Continental.

In the complaint, NASD Regulation alleges that O'Leary and Reynolds placed in *Mutual Funds Magazine* a materially misleading advertisement purporting to be a research report regarding Continental, and disseminated the report to prospective and current customers. The report, which made a "Very Strong Buy/Accumulate" recommendation, contained misrepresentations regarding Continental's business prospects and market value, including statements that Premier believed that "[Continental] is potentially in a position to dominate the waste disposal business in the entire southeastern U.S. (and beyond)"; "that the discounted net present value of [Continental's] assets and future cash flows is in excess of $250 per share"; and that "even if 99 percent of all stocks are dragged down with the overall market, in our opinion, [Continental] will be an extremely profitable exception."

In violation of federal securities laws and NASD rules, Premier, O'Leary, and Reynolds failed to disclose compensation for touting Continental. In particular, the complaint alleges that Continental paid Premier and/or O'Leary approximately $200,000 to cover printing and publication costs associated with the *Mutual Funds Magazine* advertisement, the research report, and several additional one-page ads which appeared in various national magazines. Premier and O'Leary received $10,000 to reimburse them for a fine imposed upon them by the NASD Regulation for net capital and books and records violations related to the publication and printing of the advertisements and research report. In addition, the complaint alleges that Reynolds received from Continental 10,000 shares of Continental stock as compensation for his role in publishing, printing, and distributing the advertisements and research report. Neither the advertisements nor the research report disclosed the receipt of any consideration from Continental. According to the complaint, Premier and O'Leary also failed to file the advertisements with NASD Regulation.

The issuance of a disciplinary complaint represents the initiation of a formal proceeding by NASD Regulation in which findings as to the allegations in the complaint have not been made and does not represent a decision as to any of the allegations contained in the complaint. Because this complaint is unadjudicated, the respondents should be contacted before drawing any conclusion regarding the allegations in the complaint.

NASD Regulation Fines And Expels The Harriman Group, Inc.

NASD Regulation announced that The Harriman Group, Inc. (HGI) has been fined $12.3 million and expelled from the NASD.

In the decision, the Hearing Officer determined that HGI, acting as an underwriter of three securities – Sims Communications, Inc., Natural Health Trends Corp., and International Cutlery, Ltd., defrauded investors and made approximately $12.3 million in illicit profits and excessive, undisclosed underwriter compensation.

HGI illegally profited by purchasing stock at below-market prices to cover large short positions the firm had intentionally created in its inventory. In each offering, the firm purchased the covering shares from shareholders who had received their securities prior to the initial public offerings (IPOs) through private placements and bridge financing arrangements.

The registration statements and amendments filed by Sims Communications, Inc., Natural Health Trends Corp., and International Cutlery, Ltd. with the Securities and Exchange Commission reflect that the shares owned by selling shareholders were restricted and therefore could not be sold for up to two years after the IPO, without the permission of the lead underwriter. However, HGI engaged in fraud by failing to disclose the private, below-market transactions with the selling shareholders; the firms' plans to distribute the selling shareholders' securities to the public; and the receipt by HGI of $12.3 million in excessive underwriting compensation.

Previously, NASD Regulation had sanctioned two of HGI's senior executives, Brian Scanlon and Mark Hanna – along with Maidstone Financial Inc., and two of its senior executives, Marshall Bernstein and Stuart Litman – in connection with fraud in the underwriting of three securities. Maidstone, which was expelled, and the four individuals, all of whom were barred, were fined a total of $14.8 million.

This case was brought by NASD Regulation's New York District Office with assistance from the Corporate Financing Department in Washington, D.C. HGI, Inc. does not currently operate a securities business. In September 1997, HGI, which was then based in Jericho, N.Y., withdrew from the NASD.

NASD Regulation And The State Of Connecticut Announce Disciplinary Actions Against Merit Capital And Its Chairman

A coordinated investigation by NASD Regulation's Boston District Office and the state of Connecticut has resulted in fines totaling $180,000 assessed jointly against Merit Capital and Associates, of Westport, CT, and its Chairman, Russell W. Newton. Additionally, NASD Regulation has censured Merit Capital and suspended Newton as a principal for 30 days and required him to requalify by examination.

From January 1996 to April 1997, NASD Regulation found that Russell W. Newton, on behalf of Merit Capital, made commission payments of over $167,000 for securities transactions to individuals who were known to the firm and Newton to be statutorily disqualified from the securities industry. NASD Regulation also found that Merit Capital's registered representatives used sales scripts, letterhead, and business cards that did not comply with NASD's advertising rules. Additionally, in the execution of securities transactions, the firm failed to comply with confirmation disclosure and ACT reporting requirements. Finally, Merit Capital and Newton were found to have failed to reasonably supervise the activities of its registered representatives.

In a separate action, the state of Connecticut's Banking Commissioner made findings that Merit Capital violated Connecticut state law by employing agents who transacted business without the benefit of registration; using inappropriate sales materials; and failing to establish and maintain an adequate supervisory system. The state of Connecticut also found that Merit Capital's affiliate employed investment adviser agents who were not properly registered. Merit Capital was fined $75,000 by the state of Connecticut and, pursuant to the coordinated actions by both regulators, such payment to Connecticut will be credited by NASD Regulation toward the payment of its fine.

Both disciplinary actions were resolved through settlements, in which Merit Capital and Newton neither admitted nor denied the allegations. Merit Capital has retained an independent consultant to review each area identified above. Under the terms of the settlements, the independent consultant must submit a report to both regulators with a summary of recommendations made and a plan of implementation.