STATE OF CONNECTICUT

DEPARTMENT OF BANKING

44 Capitol Avenue, Hartford, CT 06106

HOWARD B. BROWN
COMMISSIONER

PAUL J. McDONOUGH
DEPUTY BANKING COMMISSIONER

SECURITIES AND BUSINESS INVESTMENTS DIVISION
BULLETIN

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BANKING COMMISSIONER'S COMMENTS

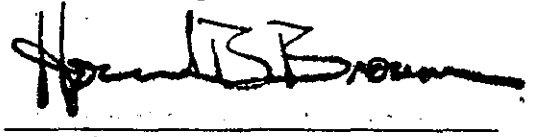
Since the date of the last Securities Bulletin, the department has renewed its efforts to promote investor protection by providing an educational symposium on regulatory issues for the financial services industry and the securities bar. On June 7, 1989, the department's Securities and Business Investments Division, in conjunction with the Securities Advisory Committee to the Banking Commissioner hosted Securities Forum '89, a seminar which focused on a number of regulatory concerns. Speakers included Lee Kuckro, General Counsel, Secretary and Vice President of Advest, Inc.; Willis Riccio, Vice President and Director of the Boston Regional Office of the National Association of Securities Dealers, Inc.; Robert Titus, a professor at Western New England College of law; Dennis Surprenant, Assistant Regional Administrator of the Securities and Exchange Commission; Willard Pinney, Jr., chairperson of the Advisory Committee and a partner at the Hartford law firm of Murtha, Cullina, Richter and Pinney; William Cuddy, managing partner at Day, Berry and Howard; Harold Finn, III, vice chairperson of the Advisory Committee and a partner at the Stamford law firm of Finn, Dixon and Herling, and Nicholas Wolfson, a professor at the University of Connecticut School of Law. Our appreciation is extended to all who helped to make the seminar a success, particularly the large number of individuals from the securities industry who were in attendance. It is my hope that we will be able to sponsor similar seminars on an annual basis to encourage compliance with all facets of the securities laws.

Among the topics covered at the seminar were the role of the compliance officer in brokerage operations; the institution of adequate internal controls in brokerage firms; the resolution and arbitration of customer complaints; financial planning regulation; business combinations; state anti-takeover legislation; federal rule changes affecting Connecticut registration exemptions; trends in the securities activities of banks; and new legislative developments. Readers of the Securities Bulletin are encouraged to contact the Director of the Securities and Business Investments Division should they have any ideas concerning topics they would like to see covered at future seminars.

This issue of the Securities Bulletin features a summary of newly enacted legislation amending the Connecticut Uniform Securities Act. A key provision in the bill would require the registration of Connecticut branch offices of broker-dealers and investment advisers effective October 1, 1989. Accordingly, we have also included in this issue those forms which must be completed in conjunction with branch office registration. Instructions to the forms are provided. The forms have also been sent to registrants under separate cover. Also of interest is an update on CRD Phase II.

This issue's Investor Alert focuses on penny stocks, an area which has been the subject of much debate at the federal and state levels.

It is my hope that the Bulletin will continue to provide a valuable service to its readers.



Howard B. Brown
Banking Commissioner

AMENDMENTS TO CONNECTICUT UNIFORM SECURITIES ACT EFFECTIVE OCTOBER 1

On June 6, 1989, Governor O'Neill signed into law Public Act No. 89-220 which made various amendments to the Connecticut Uniform Securities Act. The amendments will become effective on October 1, 1989. Key provisions of the bill are described below.

1. Branch Office Registration

Effective October 1, 1989, no broker-dealer or investment adviser may transact business from any branch office in Connecticut unless the branch office is registered with the Commissioner. The term "branch office" is defined as "any location other than the main office, identified by any means to the public, customers or clients as a location at which a broker-dealer or investment adviser conducts a securities or investment advisory business."

However, where a location is identified solely in a telephone directory line listing or on a business card or letterhead, that location would not be considered a branch office if: 1) the listing, card or letterhead also sets forth the address and telephone number of a Connecticut office of the broker-dealer or investment adviser from which individuals conducting business from that identified location are directly supervised, and 2) no more than one agent or investment adviser agent transacts business on behalf of the broker-dealer or investment adviser from the identified location.

The definition of "branch office" also provides for a discretionary exclusion where the Commissioner determines that the location would not otherwise fall within the intent of the definition.

The one time fee for branch office registration is $100 per branch and is nonrefundable.

Forms for branch office registration are available from the Securities and Business Investments Division.

2. Notification to Commissioner of Changes Affecting Branch Offices

Effective October 1, a broker-dealer or investment adviser must notify the Commissioner in writing if it: 1) engages a new manager at a Connecticut branch office; 2) acquires a Connecticut branch office of another broker-dealer or investment adviser or 3) relocates a branch office in Connecticut. In the case of acquisitions and relocations, an additional nonrefundable fee of $100 would be required. No fee is due for changes in managerial personnel at a Connecticut branch.

3. Cessation of Business Activity by Registered Investment Advisers and Broker-dealers

P.A. 89-220 extended to investment advisers current provisions governing the cessation of business activity formerly applicable only to broker-dealers.

Under the amended legislation, where a registered broker-dealer or investment adviser ceases to transact business at any office in Connecticut, it must provide written notice to the Commissioner before business activity at that office is terminated and either 1) provide written notice to each customer or client serviced by the office at least 10 business days before business activity terminates or 2) demonstrate to the Commissioner in writing why such notice to customers or clients cannot be provided within the prescribed time period. The Commissioner is then empowered to grant an exemption. The notice to customers or clients must contain: 1) the date and reasons why business activity will terminate at the office; 2) if applicable, a description of the procedure the customer or client may follow to maintain his or her account at any other office of the broker-dealer or investment adviser; 3) the procedure for transferring the customer's or client's account to another broker-dealer or investment adviser; and 4) the procedure for making delivery to the customer or client of any funds or securities held by the broker-dealer or investment adviser.

Where the cessation of business is due to a merger or acquisition, the deadline for providing notice to the Commissioner and to clients or customers is the completion date of the merger or acquisition.

4. New Basis for Denying, Suspending or Revoking Registration

P.A. 89-220 amended Section 36-484(a) of the Connecticut General Statutes to provide that the Commissioner may deny, suspend or revoke registration if he finds that, in connection with an investigation or an examination, the applicant or registrant has made any material misrepresentation to the Commissioner or, upon request made by the Commissioner, withheld or concealed material information from, or refused to furnish material information to, the department.

5. Time Frame Governing Withdrawal of Registration

Prior to P.A. 89-220, withdrawal from registration as a broker-dealer, agent, investment adviser or investment adviser agent became effective 30 days following the Commissioner's receipt of an application to withdraw unless a proceeding to revoke, suspend or condition the withdrawal was instituted within the 30 day period. P.A. 89-220 extended that time period from 30 to 90 days.

6. Investment Adviser Civil Liability

Effective October 1, 1989, any investment adviser violating the registration provisions in Section 36-474(c) of the Connecticut General Statutes would be subject to civil liability under Section 36-498.

STATE OF CONNECTICUT
BRANCH OFFICE
SPECIAL INSTRUCTION SHEET

1. Each applicant for registration as a branch office shall file with the State of Connecticut Securities and Business Investments Division ("Division") a complete Application for Branch Office Registration (enclosed), along with an initial registration fee of $100.00 which shall not be refunded.

2. Every Connecticut branch office must have a manager located on premise. Each manager must meet: 1) the experience requirement pursuant to Section 36-500-6(d)(1) of the Regulations under the Connecticut Uniform Securities Act and 2) the principal examination requirement pursuant to Section 36-500-6(f) of the Regulations.

3. Each applicant must effect compliance with Section 31-286a(b) of the Connecticut General Statutes, by completing the enclosed Workers' Compensation Coverage Questionnaire. If the second box on the questionnaire is checked, appropriate documentation must accompany the completed questionnaire. Questions concerning the applicability of Section 31-286a or Section 31-284 of the Connecticut General Statutes should be directed to your attorney or to the Workers' Compensation Commission at (203) 789-7783, not the Department of Banking.

   Section 31-286a(b) of the Connecticut General Statutes provides that "[o]n and after October 1, 1986, no state department, board or agency may renew a license or permit to operate a business in this state unless the applicant first presents sufficient evidence of current compliance with the workers' compensation requirements of Section 31-284."

4. Each applicant for branch office registration will be notified regarding any deficiencies that may exist in its filing. Prompt responses will expedite registration process.

5. Registration is not effective until formally entered upon the Register of Branch Offices and appropriate written notice forwarded to the applicant.

6. Any Connecticut branch office which terminates its operations must file with the Division the enclosed Notice of Termination of a Connecticut Branch Office Registration.

Please note that any change of address by a Connecticut branch office terminates that branch office's registration with the Division, and a notice of termination must be filed with us. Another branch office application (items 1-3 of this instruction sheet must be repeated) must be filed with the Division should the new location of the branch office be in Connecticut.

Application for Connecticut Branch Office Registration

(Please File a Separate Form for Each Branch Being Registered)

1. Name of business entity_____

2. Is business entity a broker-dealer or investment adviser (circle one)?

3. Connecticut branch office address (Do not use a P. O. Box Number)

_____

(Number) (Street) (City) (Zip) (Telephone #)

4. Please complete the following for all managers of the branch office.

Name	Residence Address	SS # or CRD #

5. Has applicant attached a copy of the completed workers' compensation questionnaire and the certificate required by Section 31-286a(b)? (See instructions) Yes _____ No _____

STATE OF_____)
) ss
COUNTY OF_____)

The undersigned, _____, being first duly sworn, states under oath that he/she has executed the foregoing application for and on behalf of the applicant named therein; that he/she is_____ of such applicant and is fully authorized to execute and file such application; that he/she is familiar with such application; and that to the best of his/her knowledge, information and belief the statements made in such application are true.

_____
(Signature of authorized individual)

Subscribed and sworn to before me this
_____day of_____, 19___.

_____
NOTARY PUBLIC
My Commission Expires

FOR INTERNAL USE ONLY
F ____
PR ____
WC ____
CRD____

WORKERS' COMPENSATION COVERAGE QUESTIONNAIRE

TO: State of Connecticut, Department of Banking
Securities and Business Investments Division
44 Capitol Avenue
Hartford, CT 06106

FROM: _____ (Insert Name of Applicant Seeking Registration)

_____ (Street)

_____ (City or Town, State and Zip Code)

TYPE OF REGISTRATION (Check): (___) Broker-Dealer

(___) Investment Adviser

Section 31-286a(b) of the Connecticut General Statutes provides that "[o]n and after October 1, 1986, no state department, board or agency may renew a license or permit to operate a business in this state unless the applicant first presents sufficient evidence of current compliance with the workers' compensation requirements of section 31-284."

Subsection (d) of Section 31-286a states that "[f]or purposes of this section, 'sufficient evidence' means (1) a certificate of self-insurance issued by a workers' compensation commissioner pursuant to section 31-284, or (2) a certificate of compliance issued by the insurance commissioner pursuant to section 31-286, or (3) a certificate of insurance issued by any stock or mutual insurance company or mutual association authorized to write workers' compensation insurance in this state or its agent."

CHECK ONLY ONE OF THE FOLLOWING BOXES:

(___) The applicant will not be operating a business in Connecticut within the meaning of Section 31-286a(b) of the Connecticut General Statutes and not subject to Section 31-284 of the Connecticut General Statutes.

(___) The applicant will be operating a business in Connecticut within the meaning of Section 31-286a(b) of the Connecticut General Statutes and has attached a photocopy of the certificate required by that section.

SIGNED: _____

_____ (Print Name)

_____ (Title)

TERMINATION NOTICE FOR CONNECTICUT BRANCH OFFICE ACTIVITY

TYPE OF BRANCH: Broker-dealer_____Investment Adviser_____

1. Name of broker-dealer or investment adviser_____

2. Termination of Branch Office located at: (Do not use a P. O. Box Number)

_____
(Street Address) (City) (State) (Zip Code)

3. Date of Branch Office Termination _____

4. Reason for termination: Merger/Acquisition _____ Relocation_____
(If relocation, specify new address:_____)
Other (specify)_____

A NONREFUNDABLE $100 FEE IS DUE WHEN A BROKER-DEALER OR INVESTMENT ADVISER RELOCATES A BRANCH OFFICE IN CONNECTICUT OR ACQUIRES A CONNECTICUT BRANCH OFFICE OF ANOTHER BROKER-DEALER OR INVESTMENT ADVISER. MAKE CHECKS PAYABLE TO TREASURER, STATE OF CONNECTICUT.

5. Has the firm provided written notice to each customer or client serviced by the closing branch as required by Section 36-474 of the Connecticut General Statutes? Yes ____ No ____

State of)
County of) ss

The undersigned,_____(print name), being duly sworn, states that he/she has executed the foregoing for and on behalf of the business entity named therein; that he/she is the_____(print title) of such entity and is fully authorized to execute and file such notice; that he/she is familiar with such notice; and that to the best of his/her knowledge, information and belief, the statements made in such notice are true.

_____
(Signature of authorized individual)

Subscribed and sworn to before me this
___day of _____, 19 ___.

_____
NOTARY PUBLIC
My Commission Expires:_____

Form BR-2

CRD PHASE II

On February 1, 1989, Phase II of the Central Registration Depository (CRD) System went into effect. Following are the procedures for registration as a broker-dealer in Connecticut pursuant to Phase II.

1. Each applicant for registration shall file with the CRD a complete Form BD with the "Connecticut" block checked and an initial registration fee of $250.00 which shall not be refunded.

2. One agent's application (Form U-4) with the "Connecticut" block checked and a registration fee of $50.00 must be filed by the applicant. The agent's name and CRD number must be provided to this office by the broker-dealer.

3. Broker-dealers shall employ as agents in this state only those who are or become registered as such under the provisions of the law. Any officer, director or partner who otherwise acts as an agent must also register as such.

4. After broker-dealer registration has been granted, additional agent U-4 applications or U-5 terminations for NASD members are to be filed with the CRD system with the "Connecticut" block checked and a $50.00 fee.

5. A Registrant's Certificate must be filed with the State which accompanies each set of financial statements which must be submitted. The date of each Registrant's Certificate must correspond with the date of the financial statement which it accompanies.

6. Provide to the State a written statement that the applicant will establish written supervisory procedures to prevent and detect violations of the Connecticut Uniform Securities Act and its regulations and that the applicant will ensure compliance with any and all state, federal and other regulatory bodies' rules, regulations and statutes. This statement must be signed by an officer of the applicant. Do not submit a copy of the applicant's supervisory procedures manual in lieu of this statement.

7. Every person listed on Schedule A, B or C of the Form BD who is involved in managerial or supervisory responsibilities with the applicant is required to meet: (1) the experience requirement pursuant to Section 36-500-6(a)(1) of the Regulations under the Connecticut Uniform Securities Act and (2) the principal examination requirement pursuant to Section 36-500-6(e) of the Regulations. A written request for a waiver from these requirements, signed by an officer, may be submitted to the State on behalf of any person who has no managerial or supervisory responsibilities with the applicant. All others must verify that they are in compliance with the requirements noted above.

8. Disclose to the State whether the applicant has ever effected securities transactions in Connecticut. This statement must be signed by an officer of the applicant.

9. Section 31-286a(b) of the Connecticut General Statutes provides that "[o]n and after October 1, 1986, no state department, board or agency may renew a license or permit to operate a business in this state unless the applicant first presents sufficient evidence of current compliance with the workers' compensation requirements of section 31-284." Therefore, evidence of compliance with this provision must be submitted as well.

ENFORCEMENT HIGHLIGHTS

ADMINISTRATIVE SANCTIONS

Cease and Desist Orders

- **Midwest Mineral Properties, Inc.**
  Jerold Nabridge, a/k/a John Lindsey
  Timothy George Guth, a/k/a Ryan Everett

  On January 11, 1989, the department issued a Cease and Desist Order against Midwest Mineral Properties, Inc. of Costa Mesa, California, Jerold Nabridge, a/k/a John Lindsey and Timothy George Guth, a/k/a Ryan Everett. The Order alleged that Midwest Mineral Properties, through Nabridge and Guth, offered and sold fractional undivided participation interests in oil and gas leasehold interests to Connecticut residents in 1985 and 1986. The Order further alleged that those interests constituted securities which were not registered and that Nabridge and Guth transacted business as agents without registration. Since the respondents did not request a hearing within the prescribed time period, the Order became final on February 7, 1989.

- **Melvin Staples Droubay**

  On March 16, 1989, the department issued an Order to Cease and Desist and Notice of Right to Hearing against Melvin Staples Droubay of Denver, Colorado. The Order alleged that, while employed as an agent of K.A. Knapp & Co., Inc. in Denver from approximately September 1986 to December 1987, Droubay transacted business as an agent of K.A. Knapp & Co., Inc. in Connecticut without being registered as such in violation of the Connecticut Uniform Securities Act. Since Droubay did not request a hearing within the prescribed time period, the order against him became permanent on April 21, 1989.

- **A Better Way to Live, Inc.**
  Al Lieberman

  On April 4, 1989, the department issued an Order to Cease and Desist and Notice of Right to Hearing against A Better Way to Live, Inc. of 3856 San Bernardo Drive, Jacksonville, Florida and Al Lieberman, its agent and representative. The department alleged that the corporation, through Lieberman, offered or sold unregistered business opportunities in violation of the Connecticut Business Opportunity Investment Act to one or more Connecticut residents. The business opportunities would enable purchaser-investors to start a health food and product business. The order also alleged that neither the corporation nor Lieberman provided

prospective purchaser-investors with the disclosure document required by Connecticut's business opportunity law. In addition, the cease and desist order alleged various violations of the Connecticut Uniform Securities Act, including the offer and sale of unregistered securities in the form of stock and the failure of Lieberman to register as an agent of the issuer. Since neither respondent requested a hearing within the prescribed time period, the order became permanent on May 1, 1989.

- Financial Network Services

On April 5, 1989, the department issued an Order to Cease and Desist and Notice of Right to Hearing against Financial Network Services of 599 Lexington Avenue, Suite 2300, New York, New York 10022. The order was predicated on alleged violations of the Connecticut Business Opportunity Investment Act. Specifically, the department claimed that Financial Network Services sold unregistered business opportunities to state residents for the purpose of enabling them to start businesses as loan brokers or consultants, made conditional guarantees of income and represented that the firm would provide residents with a marketing program. Since the respondent did not request a hearing within the prescribed time period, the order became permanent on April 28, 1989.

- Douglas R. Harvey

On May 22, 1989, the department issued an Order to Cease and Desist and Notice of Right to Hearing against Douglas R. Harvey. The Order alleged that in 1986 and 1987, Harvey offered to sell and sold securities in the form of notes, evidences of indebtedness, certificates of interest or participation in profit-sharing agreements and investment contracts to one or more persons located in Connecticut. The securities were not registered under Section 36-485 of the Connecticut General Statutes at the time they were offered and sold. Since Harvey did not request a hearing within the prescribed time period, the order became permanent on June 12, 1989.

- Beverly Hills Concepts
  Charles Remington

On June 28, 1989, the department issued a Notice of Intent to Issue a Stop Order Denying Effectiveness to the pending business opportunity registration of Beverly Hills Concepts, Inc., a corporation with its principal place of business at 950 Cromwell Avenue, Rocky Hill, Connecticut. The corporation's business consisted of offering or selling health, body and skin care products and machines, including weight control, tanning, body toning apparatus and related products. The department's notice was predicated on the corporation's failure to file required financial information.

Also on June 28, 1989, the department issued an Order to Cease and Desist and Notice of Right to Hearing as well as a Notice of Intent to Fine against Beverly Hills Concepts and its president, Charles Remington. The Order and Notice were based on allegations that the corporation and Remington failed to register the corporation's business opportunity under the Connecticut Business Opportunity Investment Act and failed to furnish Connecticut purchasers with a disclosure document. By letter dated July 11, 1989, Beverly Hills Concepts and Charles Remington requested a hearing on the Order to Cease and Desist and Notice of Intent to Fine.

- J.R. Bautista, Jr.
  Bruce Bee Belodoff
  Steven Arnold Berman
  Karl Francis Birkenfeld
  Edward Morley Delamarter
  Michael Charles Ermilio
  Irwin Lee Frankel
  William Salvatore Killeen
  Frank Anthony Grillo
  James Christopher Valentino

On June 28, 1989, the department issued an Order to Cease and Desist, Notice of Right to Hearing and Notice of Intent to Fine against the above captioned individuals, all of whom were employed by Allegiance Securities, Inc., a Georgia corporation with its principal place of business at 39 Broadway, New York, New York. The order alleged that at various times in 1988 and 1989, the individuals represented Allegiance Securities, Inc. in effecting securities transactions while they were not registered as agents of the firm in Connecticut. During that period, the firm was also unregistered. The order prohibited the named individuals from violating the Connecticut Uniform Securities Act and provided them with notice that a hearing would be held on the department's intent to assess a civil penalty of up to $10,000 against them.

Stipulation Agreements

- Wedbush Securities, Inc.

On January 3, 1989, the Department of Banking entered into a Stipulation Agreement with Wedbush Securities, Inc. of 615 South Flower Street, Los Angeles, California. An investigation by the Securities and Business Investments Division had disclosed that, during 1986 and 1987, Wedbush Securities Inc. had transacted business as a broker-dealer in Connecticut while not registered as such under the Connecticut Uniform Securities Act and had employed unregistered agents. Without admitting or denying that it had violated the Connecticut securities laws, Wedbush Securities, Inc.

agreed to review and modify its supervisory procedures to prevent and detect violations of the securities laws. In addition, the firm agreed to purchase 2,000 copies of Investor Alert, a consumer guide published by the Council of Better Business Bureaus, Inc. and the North American Securities Administrators Association, for ultimate distribution to Connecticut investors.

Shearson Lehman Hutton, Inc.
Eugene Francis Ford
Linda Louise Roman
Glenn Ward LeBoeuf

On January 11, 1989, the department entered into Stipulation Agreements with respect to Shearson Lehman Hutton, Inc., Eugene Francis Ford, Linda Louise Roman and Glenn Ward LeBoeuf. The Agreements were prompted by a Division investigation which disclosed that each of the individuals had at some time during 1988 transacted business as an agent of Shearson Lehman Hutton without being properly registered. Pursuant to its Agreement with the Commissioner, Shearson agreed 1) within thirty days following the Commissioner's execution of the Agreement, to require Ford, LeBoeuf, Roman and their respective managers to submit to additional training on firm internal procedures and on regulatory requirements with respect to state registration; 2) within twenty days following the Commissioner's execution of the Agreement, to mail a rescission offer to all Connecticut investors who were solicited to purchase and did purchase securities through Ford, LeBoeuf and Roman during the period when Ford, LeBoeuf and Roman were not registered as agents of Shearson; 3) to pay a $10,500 fine to the State of Connecticut, which sum included reimbursement for the costs of investigation; and 4) to devise, implement and maintain policies and procedures designed to detect and prevent violations of the Connecticut Uniform Securities Act and the regulations thereunder. Ford agreed to pay a fine of $2,000 constituting partial reimbursement for the costs of investigation; and Roman and LeBoeuf each consented to pay a fine of $100.

Paine Webber, Inc.

On January 31, 1989, the department entered into two stipulation agreements with Paine Webber, Inc., a national brokerage firm with branch offices in Connecticut. Both agreements followed a Division investigation which revealed that Paine Webber had employed Michael Joseph Portera, Robin Taliaferro and Ira Sanders as agents while those individuals were not registered as agents of the firm in Connecticut. The agreement concerning the firm's employment of Portera required Paine Webber to review and modify its supervisory procedures to prevent violations of the Connecticut Uniform Securities Act; pay a $10,000 fine and donate $5,000 to a Connecticut charity. The agreement further provided that Portera's application for registration as an agent would become effective upon execution of the agreement. The agreement concerning Taliaferro and

Sanders required that the firm extend to investors for whom securities transactions were effected during the period of unregistered activity an offer to rescind their trades; that the firm review and modify its supervisory procedures to detect and prevent violations of Connecticut's securities laws; and that Paine Webber pay a total fine of $750, $250 of which would be related to the activities of Taliaferro and $500 of which would relate to Sanders' activities.

Thomson McKinnon Securities, Inc.
James R. Daly
Michael P. Devine

On March 16, 1989, the department entered into a Stipulation and Agreement with Thomson McKinnon Securities, Inc. and two of its agents, James R. Daly and Michael P. Devine. The settlement concluded an 18 month long investigation initiated by the department's Securities and Business Investments Division and conducted in conjunction with state securities officials from New Hampshire, Maine and Vermont. Separate sanctions and settlements were simultaneously concluded against Thomson McKinnon in those states.

In the Stipulation, Thomson McKinnon agreed to: 1) pay a $95,000 civil penalty; 2) bear the cost, not to exceed $2,000, of an examination to be completed within eighteen months; 3) engage an outside consultant acceptable to the department to review the firm's internal supervisory procedures and to prepare and file a written report; 4) for a two year period, provide information relating to customer complaints and registration deficiencies; and 5) provide advance notice of its intention to open any branch offices in Connecticut. In addition, Devine, an agent of Charles H. Howard, III and Professional Associates, was suspended for a period of ten (10) days and was prohibited from serving in a supervisory capacity for a period of eighteen (18) months. Daly, branch manager of the Bedford, New Hampshire office where Charles H. Howard, III and Professional Associates was based, was suspended for a period of five (5) days, and his supervisory activities were limited for a period of eighteen (18) months.

The Burney Company

On March 28, 1989, the department entered into a Stipulation Agreement with The Burney Company of 157 Indian Avenue, Portsmouth, Rhode Island. A Division investigation had revealed that between November 27, 1981 and June 1988, the firm had employed individuals to accept investment advisory business in Connecticut while the firm was not registered as an investment adviser and the individuals were not registered as investment adviser agents. Under the Agreement, The Burney Company agreed to review and modify its supervisory procedures to detect and prevent violations of the

Connecticut Uniform Securities Act; pay $2,000 to the Division as compensation for costs incurred in the Division's investigation; and not pay, directly or indirectly, any compensation, commission or remuneration of any kind to any individual for soliciting Connecticut clients unless that individual was first registered as an investment adviser agent with the department.

- New England Financial Advisors

On April 19, 1989, the department executed a Stipulation Agreement with New England Financial Advisors ("NEFA") of 501 Boylston Street, Boston, Massachusetts. The Stipulation Agreement resulted from a Division investigation which uncovered evidence that from January through July, 1988, NEFA had employed unregistered investment adviser agents in the state. Pursuant to the Agreement, NEFA agreed to review and modify its supervisory procedures to detect and prevent future violations of Connecticut's securities laws; pay $2,500 to the Division as compensation for costs incurred in the Division's investigation; refrain from directly or indirectly paying any compensation, commission or remuneration of any kind to its investment adviser agents for advisory contracts solicited prior to the time those investment adviser agents were registered with the department; amend its investment adviser registration to reflect the locations of all of its offices in Connecticut and the identities of those persons supervising such offices; file a quarterly report with the Division describing the activities of each of its Connecticut branch offices and detailing the number and types of advisory contracts signed, the amount of fees received and the identities of, and licenses held by, all investment advisers and investment adviser agents operating out of each Connecticut branch office; and pay the cost, not to exceed $750, of one or more examinations of its offices in the New England Region and in New York to be conducted by the Division within one year following execution of the Agreement.

- National Securities Network, Inc.

On May 5, 1989, the department entered into a Settlement Agreement with National Securities Network, Inc. of 5500 Greenwood Plaza Boulevard, Englewood, Colorado. The Agreement followed a Division investigation which disclosed that the firm had employed one Steven A. Wojnarski as an agent while that individual was not registered as an agent of National Securities Network, Inc. in Connecticut. Under the terms of the Agreement, the firm agreed to review and modify its supervisory procedures to prevent violations of the Connecticut Uniform Securities Act and consented to the imposition of a $4,000 fine.

- Craig R. Gordon

On May 22, 1989, the department entered into a Stipulation Agreement with Craig R. Gordon now or formerly of 62A Ludlow, Westport, Connecticut and d/b/a New England Container. The Stipulation Agreement followed an

investigation by the Securities and Business Investments Division which revealed that Craig R. Gordon allegedly solicited funds from a Connecticut investor to be used in Gordon's shipping container business and that Gordon represented to the investor that he would share with her profits to be achieved upon resale of the containers. Pursuant to the Stipulation Agreement, Gordon agreed to make restitution to the investor.

- Main Street Management, Inc.

On May 22, 1989, the department entered into a Stipulation Agreement with Main Street Management, Inc. of 924-926 North Main Street Ext., Wallingford, Connecticut. The Stipulation Agreement followed an investigation by the Securities and Business Investments Division which alleged that the firm did not conduct proper due diligence and was deficient in supervising its agents with respect to the offer and sale of units in Baron Properties Nine Limited Partnership. Pursuant to the Stipulation Agreement, the firm agreed to accept a letter of censure; review and modify its supervisory procedures; contribute $7,500 to a local charity; and reimburse the agency $500 for its costs of investigation.

Licensing

- ShareAmerica Limited Partnership

On April 6, 1989, the department issued an order withdrawing a Notice of Intent to Revoke Registration as a Broker-dealer which had been issued against ShareAmerica Limited Partnership on February 16, 1989. The order also vacated the department's order of February 16, 1989 summarily suspending the firm's registration. The department's action was based in part on the firm's agreement to limit expenses and to file monthly FOCUS reports until such time as its excess net capital exceeded $100,000. The Notice of Intent to Revoke Registration and the summary suspension of the firm's registration had been predicated on net capital deficiencies discovered by the department's Securities and Business Investments Division. Both the withdrawal of the Notice of Intent to Revoke and the vacating of the summary suspension were without prejudice to the department's ability to take further regulatory steps to ensure capital compliance.

- Kortright Market Systems, Incorporated

On May 31, 1989, the department issued a Notice of Intent to Revoke Registration as an Investment Adviser with respect to Kortright Market Systems, Incorporated of 53 East 92nd Street, New York, New York. The Notice was based on allegations that the firm, an investment adviser registered in the state, wilfully violated the regulations under the Connecticut Uniform Securities Act by failing to file an annual report of its financial condition. A hearing on the allegations has been scheduled.

- Thomas Edward Doyle - Registration Suspended

On June 26, 1989, the department issued a Notice of Intent to Revoke Registration as an Agent and an Order Summarily Suspending Registration as an Agent against Thomas Edward Doyle, a registered agent of Pruco Securities Corporation in Connecticut. The Notice and the Order were predicated on allegations that on September 28, 1988, the District Business Conduct Committee for District No. 13 of the NASD censured Doyle and suspended him from association for one year for violating Article III, Section 1 of the NASD Rules of Fair Practice. Doyle was provided with an opportunity for a hearing on the Notice of Intent to Revoke and his Connecticut registration was suspended pending a final determination on the revocation issue.

- Power Securities Corporation - Registration Cancelled

On June 27, 1989, the department issued a Notice of Intent to Cancel Registration as a Broker-dealer with respect to Power Securities Corporation. The Notice alleged that Power Securities, a broker-dealer registered in the state and having its principal office at 302 E. Carson Avenue, Las Vegas, Nevada, had ceased conducting securities business as of February 13, 1989. Since Power Securities did not request a hearing on the allegations, its registration was cancelled effective July 26, 1989.

- Allegiance Securities, Inc.

On June 28, 1989, the department issued a Notice of Intent to Deny Registration as a Broker-dealer with respect to Allegiance Securities, Inc. of 39 Broadway, New York, New York. The Notice alleged that the firm wilfully violated Section 36-474(a) of the Connecticut General Statutes in that it transacted business as a broker-dealer in Connecticut while unregistered; wilfully violated Section 36-474(b) of the Connecticut General Statutes by employing unregistered agents and failed to exercise reasonable supervision over its agents. The Notice further granted Allegiance Securities, Inc. an opportunity for a hearing on the allegations.

- Also on June 28, 1989, the department issued a Notice of Intent to Fine against the firm based on the firm's violations of Section 36-474 of the Connecticut General Statutes as set forth above. A hearing has been scheduled on the imposition of the fine.

Investors Center, Inc. - Registration Revoked

On June 29, 1989, the department issued a Notice of Intent to Revoke Registration as a Broker-dealer with respect to Investors Center, Inc. of 555 Broadhollow Road, Melville, New York. The Notice alleged that from April 1986 through November 1986, Investors Center, Inc., through its representative, Gershon Tannenbaum, wilfully offered and sold securities

of Packaging Plus, Inc. to Connecticut residents while such securities were not registered under Section 36-485 of the Connecticut Uniform Securities Act. The Notice also alleged that in 1988, the firm wilfully employed Mark Sam Simon a/k/a Mayer Sam Simon and Jeffrey Ferdinand Block as agents while those individuals were not registered as agents of the firm in Connecticut. The Notice further indicated that Investors Center, Inc. was not in compliance with a November 2, 1988 Stipulation Agreement which required it to engage an outside expert to review its supervisory procedures within 120 days following the execution of the agreement. Since Investors Center, Inc. did not exercise its opportunity for hearing on the allegations, its registration was revoked effective July 27, 1989.

Miscellaneous Orders

- James H. Kennedy - Order Vacated

On April 20, 1989, the department issued an Order vacating a cease and desist order which had been issued against James H. Kennedy of Brookfield, Connecticut on June 16, 1982. The June 16, 1982 Order had alleged that Kennedy was a registered agent of P & I Equities, Inc., a broker-dealer located in Glastonbury, Connecticut; that Kennedy and others sold limited partnership interests in Group 22 Associates, Group 18 Associates, Group 17 Associates, Group 15 Associates, Glastonbury Associates, Meetinghouse Village III, Meetinghouse Village II, Meetinghouse Village I, Whitewood Hills Associates and Park and Washington Associates; that Kennedy and others transacted business as principals or agents of Robert W. Johnson and Associates, an unregistered broker-dealer; and that, in failing to satisfy suitability requirements set forth in the private offering materials for the partnerships, Kennedy and others made untrue statements of material facts, engaged in acts, practices and a course of business which operated as a fraud or deceit and were about to participate in such activities in the future. The Order vacating the cease and desist order was based upon the fact that almost seven years had elapsed since the issuance of the 1982 order and upon the fact that the Commissioner had not imposed any additional sanctions against Kennedy in the interim for violations of the Connecticut Uniform Securities Act.

CIVIL LITIGATION

- Howard B. Brown, Banking Commissioner v. R.W. Technology, Inc. et al.

On July 11, 1989, the department filed a verified complaint in Superior Court against R.W. Technology, Inc., a Cheshire, Connecticut based corporation; Paul Casavina, Sr., its majority shareholder and John Minicucci, a director of the corporation. The complaint alleged that the defendants had violated the antifraud provisions of the Connecticut Uniform Securities Act by misrepresenting to investors that a public market would develop for R.W. Technology shares when, in fact, a public market already existed; that shares were only available through R.W. Technology, Inc.; that by paying an inflated price for the shares

investors would be taking advantage of a "ground floor opportunity"; and by failing to disclose to investors the risks involved in the investment, financial information on the corporation, the background and business experience of the corporation's principals and the fact that the company's product, a plastic substitute manufactured from old tires, had not been fully developed. The complaint also alleged that from at least January 1, 1987 to the present, the defendants offered and sold common stock of R.W. Technology without effecting a registration for the shares and thus violated the registration provisions of the Connecticut Uniform Securities Act.

The accompanying Prayer for Relief requested that the court issue a permanent injunction restraining the defendants from violating the antifraud provisions of Connecticut's securities laws. The department also requested that the defendants be enjoined from offering or selling the securities of R.W. Technology, Inc., its affiliates, successors or assigns, unless such securities were registered with the Commissioner. The Prayer for Relief further requested that the court enter an order appointing a receiver to 1) take into custody all assets and property belonging to or held beneficially for the securities accounts operated by the defendants as well as all assets or property belonging to the defendants and 2) remove Paul Casavina, Sr., John Minicucci, and other management personnel from control and management of the corporation. The Prayer for Relief also requested an accounting and restitution to investors.

The case was also referred by the department to the Chief State's Attorney for criminal prosecution on April 26, 1989.

CRIMINAL SANCTIONS

H. Alan Burkett

On June 2, 1989, H. Alan Burkett was sentenced to three (3) years in prison by the state Superior Court. Mr. Burkett had earlier been convicted of one count each of fraud in the sale of securities, the sale of unregistered securities and failure to register as an agent. The charges stemmed from Mr. Burkett's promotion of several commodity pools in which he offered high rates of return of up to 2% monthly. Mr. Burkett, who conducted this activity while living in Old Saybrook, Connecticut, raised approximately six million dollars through the sale of interests in the pools. Investment proceeds were used to pay personal expenses, pay off other investors and, to a limited extent, trade commodities.

PENNY STOCKS - ARE THEY WORTH IT?*

Peddling the Pennies

Penny stocks are inherently risky. Typically, the issuer is a small, poorly financed company whose future prospects are extremely uncertain. Because of their low cost and the relatively small number of stockholders, penny stocks are all too often the subject of price manipulation by the firms that take them public and by other broker-dealers who subsequently make a market in the stock.

There are two basic factors involved in any consideration of penny stocks, which actually can range in price anywhere from one cent to about five dollars. First, the issue is often fraudulent to begin with, the only objective being to lure investors into buying a lot of worthless paper. Fraudulent penny stocks can sometimes be distinguished from legitimate low-priced stocks by a careful reading of the prospectus. Second, a broker-dealer is needed to promote the issue, his "contribution" to the action being that he has the network and the contacts.

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Penny stocks are seldom sold initially by prospectus but rather by phone. The salespeople, despite their nonprofessional background, are usually well trained in the nuances of telephone solicitation. They start off in a low-key manner with a pitch that may go something like this: "Mr. Smith, I'd like to introduce myself. I'm a stockbroker and we are making a little survey to find out what people in your neighborhood are interested in knowing about promising investments."

After they line up prospects who do not discourage them outright or hang up, they place a second call. Now their voice is edged with excitement. They have just received inside information on a new stock issue that holds great promise, especially for people who might only want to make a small investment. The "double-your-money" pitch might be used if the prospect's ears seem to prick up. The chances are that the salesperson will do no more than paint a rosy picture and promise to keep the prospect posted. The idea, of course, is to let him dream a little so that he will be an easier mark for a bigger sale.

The third phone call is likely to start off with a phrase like this: "I've just been talking with the president of XYZ Company and he says ...." Another ploy is to say, "I'm holding 3,000 shares in your name. I had hoped to reserve 5,000 but there has been such a big demand ...." Now the hot advice is to <u>buy</u> - and at once! The prospect is urged to withdraw his money from the bank and send it right in to the company. The prospectus for the stock? Oh, that will be sent by return mail, with a detailed description of this company that is on the verge of a big financial breakthrough.

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*Excerpted from <u>Investor Alert! How to Protect Your Money From Schemes, Scams, and Frauds</u> (1988). Reprinted by permission of the North American Securities Administrators Association, Inc.

After the customer has sent in his money and then received the prospectus, he is likely to be shocked. He finds out, too late, that the company has very little capital, that the principals are inexperienced, and that, indeed, in some instances, it has not yet been decided quite what kind of a business venture is going to be undertaken.

Here are some actual excerpts from the prospectuses issued on three companies in 1986.

- "These securities offer a high degree of risk and the company is and will be significantly underfinanced. It is highly probable the proceeds from this offering will be insufficient for any sustained, ongoing operation and there is a substantial likelihood that the company will be unsuccessful ...."

- "The purchase hereof should be considered only by persons who can afford the loss of their entire investment."

- "The company is currently significantly dependent upon the personal efforts and abilities of its 2 officers, neither of whom has had any relevant experience in (a) assessing business(es) to determine whether such business(es) would provide good business opportunities for the company or (b) locating and/or acquiring existing business(es) and/or acquiring assets to establish subsidiary business(es) and neither of whom will be devoting significant time to the company's proposed day-to-day business activities."

The last-quoted prospectus also stated, flat out, that one of the two officers had been "enjoined, suspended and subject to various disciplinary proceedings in the securities business ...."

In talking about the speculative nature of investing in its stock, one prospectus stated, "The main risk factors include the fact that the company has no operating history, that it must rely upon inexperienced management, that it has no specific business or use of proceeds, and that it is a blind-pool offering."

"Blind pool" is a term used with some of these penny-stock offerings to indicate that the investors and the promoter do not know exactly where or how the money invested will be put to work, if at all. Reporting that securities administrators were worried about the proliferation of blind pools, the New York Times explained in an editorial in early 1986, "The offerings are designed to raise a bankroll. How that bankroll may be used by the deal's manager is often described only in the broadest terms. For example, while some blind-pool prospectuses will outline an area of investment, such as stocks, real estate, or television stations - even the acquisition of companies - other prospectuses promise only that the manager will seek profitable opportunities."

What Lies Behind the Lure

How can you lose much on a stock that sells for only five or ten cents a share? Sure, it may be a gamble, but isn't it worth a flyer when penny stocks have been known to boom from a few cents to four or five dollars?

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Sadly, the con artists saw that there was a gold mine in penny stocks, which could be sold by the hundreds of thousands to substantial investors and which lent themselves perfectly to high-pressure tactics. They were ideal come-ons for boiler-room operations, which consist of banks of telephones manned by glib salespeople who have no scruples about making the most outrageous claims. Moreover, the fast-talking promoters could promise almost anything with little fear that the stocks they touted could be investigated quickly or easily.

Is the business really that big or important? In Colorado, when the Denver penny-stock market collapsed in 1982 largely as a result of fraudulently inflated prices, hundreds of millions of dollars were lost by thousands of unfortunate investors. Following the collapse, new waves of buying and selling simply set the stage all over again for another generation of fraud. One study revealed that 45 percent of the penny stocks surveyed were being sold by promoters who were convicted felons, securities violators, reputed crime figures, or who were under investigation for financial misdealing.

Stocks with no value at all but selling for 10 cents a share were being promoted by con artists who could use any of a variety of manipulative techniques to make sales, eventually kiting the price to three or four dollars. Those on the inside could take their money and flee. The rest of the purchasers were left with fistfuls of worthless paper.

What it boils down to is that often the only people who end up winners in the penny-stock game are the brokers, the insiders, and the company principals who devised the scheme to begin with. What the customers frequently end up with are a bunch of "dog" stocks that no one wants to buy because the companies they represent have very little past and no future.

Among the promoters of the "dogs" have been: a brokerage firm in Jersey City that was banned from offering new securities after a federal judge found the firm engaged in a stock manipulation scheme for a company that manufactured ointment alleged to grow hair on bald men, a California company that raised $3 million even though its prospectus said that the company had no plan of operation and did not know what business it would be in, and a company called Dentec that raised about $1 million on the penny-stock market even while candidly admitting that it would probably be illegal - as it eventually turned out to be - for it to obtain the state dental license it needed to begin business.

A Losing Proposition

The dice are often loaded heavily against purchasers of penny stocks, not only because of ultimate business failures by the companies involved but because the officers and insiders purchase stock at a fraction of what the public pays. A typical example is that of a company called Roltec, which told prospective investors that it was developing a high-tech product called a "squirm drive mechanism." Ten officers, directors, and other insiders purchased 12 million shares of the stock (or 75 percent) for $12,000, in blatant contrast to the 4 million shares purchased by the public for $1 million. In such situations, the promoter-brokers hype the sale of the stock, driving up the price. Typically, the promoters then sell out with a fat profit, the stock price collapses, and investors are the ones left holding the bag.

The situation became so uncontrollable in Utah that the governor formed a Securities Fraud Task Force, which spent about 10 months investigating the nature and extent of the problem in that state. "In recent years," said the resulting report, "Utah has gained a reputation as the site of an inordinate amount of securities fraud and other investment frauds. Ten of these frauds have involved over 9,000 Utahns, who have experienced a loss of approximately $200 million. In addition to direct investment losses, these frauds have caused a loss of confidence in Utah's businesses to raise capital, and fostered a negative image of Utah's people and institutions. The indirect financial losses to Utahns may thus be significantly greater than the direct losses."

The persistence and brazenness of the penny-stock manipulators is such, however, that statewide counterattacks often do no more than cause temporary setbacks or force the perpetrators to move their operations to another locale. Within a year or so of the Utah Task Force report, penny stocks were right back in circulation.

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When matters finally come to a head and the shareholder literally demands his money back, he is told, "OK, I'll do what I can for you, but this is a very poor time to sell." It is at this point that he discovers how great a difference there is between the "asked" and "bid" price for the stock - the former being the figure on paper and the latter the amount the broker will actually pay. If the customer ends up with 50 percent of what he paid originally, he is lucky.

Before You Invest in Penny Stocks

There are, of course, many inexpensive stocks that are legitimate and are used to finance valid entrepreneurial enterprises. The question is, how do you distinguish these stocks from the penny stocks that are merely elaborate schemes to part you and your money?

First of all, beware of high-pressure, unsolicited telephone calls urging you to invest in a real bargain. The fraudulent penny-stock broker has a "boiler room," a bank of telephones manned by high-pressure salespeople who tout stocks with outrageous promises. Beware of claims that the stock will double soon and demands that you make an on-the-spot decision and pay immediately. Suggestions that the broker has inside information or that manipulative techniques are being used to raise the stock's price should be viewed very suspiciously. They are danger signs of the penny-stock game in which many buyers are losers.

Equally important, if you are not immediately turned off and certain that the offering is a fraud, is to obtain a prospectus and read it carefully. The prospectus is a required document that is supposed to contain full disclosure of all facts and risks involved in the offerings. No broker or salesperson involved with legitimate stock offerings will try to dissuade you from this step. In the end, what you learn - or do not learn - from the prospectus should be a basic factor in determining whether or not you invest your money. You should regard as a red flag anything you read in the prospectus that contradicts what a salesperson has claimed. The prospectus will include the following sections, among others.

- Management: Facts about the principals in the company.
- Financial health: Capital, debts, and an accountant's report.
- Dilution: Charts or data to show how many shares of stock will be given or already have been transferred to principals or promoters at little or no cost.
- Proceeds: The use to which investment money will be put, both to develop the products or services and to pay salaries and taxes.
- Product: The degree to which company products or services have been developed, tested, and proven useful.
- Conflicts of interest: Interest-free loans to company officials and other internal benefits that aid the promoters but are of no value to investors.
- Litigation: Lawsuits filed against the company and other restrictive actions that could hinder development.

Finally, find out whether the stock is registered with ... [the] state Securities Division or the federal SEC. Such registration is not an indication of approval or testimony to the soundness of the company, but it does confirm that the facts about the company and the offering have been disclosed.

MIDYEAR STATISTICAL SUMMARY

January 1, 1989 - June 30, 1989

SECURITIES REGISTRATION

Registrations by Coordination	997
Registrations by Qualification	17
Regulation D Filings	832
Other Exemption Notices	129

BUSINESS OPPORTUNITY REGISTRATION

Initial Business Opportunity Registrations	35
Renewal Business Opportunity Registrations	18

BROKER-DEALERS AND INVESTMENT ADVISERS

Broker-dealer Firm Initial Registrations Processed	166
Broker-dealer Firms Registered as of 6/30/89	1,598
Broker-dealer Agent Initial Registrations Processed	7,691
Broker-dealer Agents Registered as of 6/30/89	51,327
Investment Adviser Initial Registrations Processed	49
Investment Advisers Registered as of 6/30/89	564
Investment Adviser Agent Initial Registrations Processed	59
Investment Adviser Agents Registered as of 6/30/89	5,163

ENFORCEMENT

Securities Investigations Opened	95
Securities Investigations Closed	75
Business Opportunity Investigations Opened	7
Business Opportunity Investigations Closed	11
Cease and Desist Orders Issued	
.Securities	4
.Business Opportunities	3
Denial, Suspension and Revocation Notices	6
Consent Orders Executed	0
Stipulations Executed	10
Subpoenas Issued	
.Securities	52
.Business Opportunities	1
Criminal Referrals	2
Referrals to Attorney General	2