

OHIO SECURITIES BULLETIN

A QUARTERLY PUBLICATION OF THE OHIO DIVISION OF SECURITIES

Bob Taft
Governor of Ohio

Lt. Governor Jennette Bradley
Director of Commerce

Deborah L. Dye Joyce
Commissioner of Securities

Lt. Governor Jennette Bradley Leads Department of Commerce

The Ohio Department of Commerce has a new leader. Governor Bob Taft has appointed Lt. Governor Jennette Bradley as Director of Commerce. She succeeds former Director Gary Suhadolnik, who was recently named Executive Director of the Ohio Turnpike Commission.

As Director of the Ohio Department of Commerce, Lt. Governor Bradley will oversee the Division of Securities in addition to the Divisions of Administration, Financial Institutions, Industrial Compliance, Labor and Worker Safety, Liquor Control, Real Estate and Professional Licensing, State Fire Marshal, and Unclaimed Funds.

"I'm honored and excited by the Governor's call to serve in this capacity. Ohioans depend on the services the Department of Commerce provides and I look forward to the challenge of effectively and efficiently running the agency," she said.

Prior to being elected the nation's first female African American to serve as Lieutenant Governor, she served as an 11-year member of the Columbus City Council and as Senior Vice President, Public Funds Manager at Huntington National Bank. In previous positions, Lt. Governor Bradley served as Senior Vice President for Kemper Securities and as the Executive Director of the Columbus Metropolitan Housing Authority.

In addition to her official duties as Lieutenant Governor and serving as Director of Commerce, Governor Taft appointed Lt. Governor Bradley to serve in the following capacities:

- Chair of the Clean Ohio Council
- Chair of the Ohio Housing Finance Agency
- Chief policy advisor for community development and housing programs

continued on page 2

Ohio Legislature Approves Corporate-Securities Reform Bill

By Thomas E. Geyer

In April 2003, both chambers of the 125th Ohio General Assembly unanimously approved Substitute House Bill 7, a reform measure designed to enhance investor confidence in the securities marketplace. Sub. H.B. 7 is the combination of H.B. 7 (introduced by Representative Mary Taylor) and S.B. 7 (introduced by Senator Kevin Coughlin) and represents the legislative incarnation of a corporate-securities reform initiative announced in September 2002 by Governor Bob Taft and Attorney General Jim Petro. Sub. H.B.7 makes the following improvements to Ohio law: (1) it adds new protections to help prevent investors from being victimized by violations of the Ohio securities laws; (2) it provides additional assistance to those who have been victimized by vio-

lations of the Ohio securities laws; and (3) it improves enforcement of the Ohio securities laws. This article provides a general explanation of how Sub. H.B. 7 amends the Ohio Revised Code.

First, to protect and prevent investors from being victimized by Ohio securities law violations:

- an amendment of R.C. 1707.01(B) clarifies that an investment opportunity need not be in writing in order to be a "security" under Ohio law;¹
- new R.C. 1707.131(B) prohibits the Ohio Division of Securities (Division) from accepting the registration of securi-

continued on page 2

OHIO DEPARTMENT OF COMMERCE DIVISION OF SECURITIES

<http://www.securities.state.oh.us>



Ohio Securities Bulletin

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Table of Contents

Lt. Governor Jennette Bradley	1
Corporate-Securities Reform Bill ..	1
Advisory Committee Meetings	3
Enforcement Section Reports	4
Securities Conference 2003	7
Capital Formation and Registration Statistics	8
Licensing Statistics	9

Bradley

continued from page 1

- Coordinator for urban revitalization
- Liaison to county and local governments
- Co-chair of the Governor's Small Business Advisory Council and as the Taft Administration's liaison to small business

Lt. Governor Bradley began serving in these positions after taking the oath of office on January 13, 2003.

Reform Bill

continued from page 1

ties of companies that have no business plan (known as "blank check offerings");

- new R.C. 1707.131(C)(1) establishes limits on, and requires disclosure of, affiliate transactions in companies that register securities with the Division;²
- new R.C. 1707.131(C)(2) establishes limits on, and requires disclosure of, loans to insiders of companies that register securities with the Division;³
- amendments of R.C. 1707.08 and R.C. 1707.09 require corporate representatives to certify financial records at the time securities are registered with the Division;⁴
- an amendment of R.C. 1707.08 changes the effective date of a registration by description to seven business days after the Division receives the registration;
- new R.C. 1707.44(N) prohibits improper influence on accountants who prepare financial statements to be used in connection with the purchase or sale of securities in Ohio; and
- new R.C. 1701.831(C)(2) amends the Ohio Control Share Acquisition Act to codify a recent federal court decision⁵ in which the court permitted the target company to reschedule the special meeting of shareholders outside the fifty day window required by the current version of R.C. 1701.831(C) when the offeror changed the consideration offered.

Second, to assist those who have been victimized by violations of the Ohio securities laws:

- new R.C. 1707.261 provides that if the Division obtains an injunction against a defendant (or defendants) for violating the Ohio securities laws, the Division may ask the court to order the defendant(s) to make restitution or rescission to investors damaged by the violations of the Ohio securities laws; and
- changes to R.C. 1707.41, 1707.42 and 1707.43 lengthen the statute of limitations for private civil actions from two years/four years to two years/five years.

Third, to improve enforcement:

- amendments to R.C. 2913.02 increase white collar crime penalties as follows: theft where the victim is elderly or disabled and \$100,000 or more is stolen becomes a first degree felony; theft not involving an elderly or disabled victim where the amount stolen is between \$500,000 and \$999,999 becomes a second degree felony, and theft of

\$1,000,000 or more becomes a first degree felony;

- new R.C. 1707.23(J) clarifies that the remedies contained in the Ohio Securities Act are cumulative and concurrent; and;
- an amendment of 1707.28 lengthens the enforcement statute of limitations from three years to five years, and clarifies that the limitations period applies to all enforcement actions.

Sub. H.B. 7 complements, and does not duplicate, the reforms contained in the Sarbanes-Oxley Act. For example, many of the federal reforms apply only to companies that file regular reports with the federal Securities and Exchange Commission. The Ohio legislation takes some of those reforms, such as the limitation on loans to insiders and the financial certification requirement, and applies them to companies that register securities with the Division. Over the last three fiscal years, the Division has received nearly 800 securities registration filings, proposing to sell over \$76 billion worth of securities to Ohio investors. Sub. H.B. 7 provides new protections, similar to the new federal protections, to investors in these smaller public

OHIO SECURITIES BULLETIN

Desiree T. Shannon, Esq., Editor

The *Ohio Securities Bulletin* is a quarterly publication of the Ohio Department of Commerce, Division of Securities. The primary purpose of the *Bulletin* is to (i) provide commentary on timely or timeless issues pertaining to securities law and regulation in Ohio, (ii) provide legislative updates, (iii) report the activities of the enforcement section, (iv) set forth registration and licensing statistics and (v) provide public notice of various proceedings.

The Division encourages members of the securities community to submit for publication articles on timely or timeless issues pertaining to securities law and regulation in Ohio. If you are interested in submitting an article, contact the Editor for editorial guidelines and publication deadlines. The Division reserves the right to edit articles submitted for publication.

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Ohio Division of Securities

77 South High Street, 22nd Floor • Columbus, Ohio 43215-6131

<http://www.securities.state.oh.us>

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Receptionist 644-7381
Broker-Dealer 466-3466
Records 466-3001

Enforcement 466-6140
Registration 466-3440

companies. Providing investor confidence will in turn help small business raise money in Ohio.

Further, the Ohio legislature recognized that some reforms are best made on the national level. So, for example, Sub. H.B. 7 does not regulate accountants, securities analysts or attorneys, or require the filing of new or additional reports with the Division.

Sub. H.B. 7 is available on the website of the Ohio General Assembly, www.legislature.state.oh.us.

Mr. Geyer is an Assistant Director of the Ohio Department of Commerce and former Commissioner of the Ohio Division of Securities.

Endnotes

¹ This responds to the Ohio Supreme Court's recent decision in Gutmann v. Feldman, 97 Ohio St. 3d 473 (2002), in which the Court held that an oral contract did not constitute a security under Ohio law.

² This is a codification of the Division's current merit guideline regarding affiliate transactions. See <http://www.securities.state.oh.us/Rules/ExistingGuidelines#FTA>.

³ This is a codification of the Division's current merit guideline regarding loans to insiders. See <http://www.securities.state.oh.us/RulesExistingGuidelines#ILP>.

⁴ This is a codification of the certification that appears on Form U-1.

⁵ Northrop Grumman Corporation v. TRW, Inc., No. 1:02CV400 (N.D. Ohio April 18, 2002).

Minutes of the Registration and Exemption Advisory Committee

The Registration and Exemption Advisory Committee meeting was held directly after the Ohio Securities Conference on November 22, 2002. The discussion focused upon pending legislation with regards to registration and exemption provisions. Proposed R.C. section 1707.131

would require the Division to refuse or suspend an application or registration if the offering was a blind pool, any insider loans are not repaid or certain disclosures are not provided in the offering circular. The disclosures that the proposed rule would require in the offering circular concern affiliated transactions and future loans. The offering circular must disclose that affiliated transactions will be on terms no less favorable to the issuer than could be obtained from an independent third party. Future loan disclosure must state that the loan is for a bona fide business purpose and approved by the disinterested control persons (directors, managers, trustees, etc.). The Division noted that these provisions are existing guidelines that the Division applies in the merit review of registration applications. The statutory addition of the guidelines would provide enhanced visibility to applicants.

Attendees commented that the provision may adversely impact outstanding loans that were made for a bona fide purpose. One example was a loan to assist an officer/director/shareholder with a tax liability. The Division believes that many of these applicants may be exempt, but one commentator noted that this may not always be the case. Another comment suggested that the proposed language requires that the Division suspend or refuse the application. A suggestion was offered that the mandatory "shall" be changed to "may" to provide some flexibility.

The Division noted that the procedural timing of registration of transactions by description would change from "automatic effectiveness" to effectiveness "seven business days" after the Division receives the description. This change to R.C. section 1707.08 will prevent offerings of a questionable nature from receiving automatic effectiveness by a certified mailing. The Division notes that most filers wait for Division comments and resolve those comments, which benefit the investor and the issuer. Counsel would be required to respond as expeditiously as possible upon receipt of a Division comment letter.

Finally, the Division is proposing additional language to R.C. section

1707.44(B)(6) to prevent false statements in a notice filing pursuant to Rule 506, Form D and R.C. section 1707.03(X). The Division review of Form D's has revealed a number of concerns that are significant and material. This provision will not apply to immaterial errors such as most typographical mistakes. This provision is consistent with other filings.

No further comments were offered on the proposal. The Division noted that some problematic trends are continuing such as unjustified projections, unlicensed finders, and Internet solicitations. The Division offered to keep attendees updated on the development of the proposed statutory changes as well as any other developments. The meeting was adjourned.

Minutes of the Takeover Advisory Committee

The Takeover Advisory Committee meeting was held following the 2002 Ohio Securities Conference. James Carlson of Thompson, Hine & Flory, Daniel Mascaro of The Progressive Corporation and Thomas Geyer of the Department of Commerce gave an overview of the litigation in connection with Northrop Grumman's bid to acquire TRW at the Conference. The Committee's discussion started with a number of concerns relating to the Ohio Control Share Acquisition Act, R.C. 1707.831, that were raised in Northrop Grumman's bid for TRW.

One of the main issues in Northrop Grumman's bid for TRW was the timing of the special meeting under R.C. 1701.831(C). After Northrop Grumman's initial bid was received, TRW scheduled the special meeting for the forty-ninth day after receipt of the acquiring person statement to meet the statutory requirement that the special meeting be scheduled within fifty days. Four days prior to the scheduled special meeting, Northrop Grumman increased its offer for TRW. When Northrop Grumman did not agree to continue the special meeting, TRW filed a motion with Judge Manos of the U. S. District Court for the Northern District of Ohio requesting that the special meeting be continued to allow TRW's directors time to evaluate Northrop Grumman's amended offer and make a recommendation to the TRW shareholders required by R.C. 1701.831(D)(2). Judge Manos allowed the continuance of the special meeting noting the Williams Act required a 10-business day extension of an offer for any material amendments, including any change in the consideration. In addition to providing TRW's directors with additional time to make the required recommendation on Northrop Grumman's increased offer, Judge Manos' ruling gave the TRW shareholders additional time to consider the amended offer consistent with federal law. The Committee recommended

that R.C. 1701.831 be amended to codify Judge Manos' decision.

The Committee also discussed Ohio's proposed corporate accountability reform legislation, H.B. 7 and S.B. 7. While these bills were not enacted prior to the end of the 124th General Assembly, the Committee discussed a number of changes if the legislation is introduced again in 2003. The Committee's main concern was the proposed control person liability provisions. The Committee felt that R.C. 1707.43 already provides for control person liability by extending liability to "any person who has participated or aided the seller in any way in making such sale." It was noted that Ohio Courts have construed this language very broadly (see, e.g., Federated Management Co. v. Coopers and Lybrand, 137 Ohio App. 3d 366 (10th Dist. Ct. App. 2000)) and have extended liability to corporate officers (see, e.g., Sorenson v. Tenuta, 62 Ohio App. 3d 696 (10th Dist. Ct. App. 1989)). R.C. 1707.41 also provides a private right of action against directors who have knowledge of false selling materials. The proposed control person liability provision may conflict with these provisions and create conflicting, and perhaps narrower, case law. Further, the proposed liability provision could be viewed as inconsistent with the Ohio Business Judgment Rule (codified in R.C. 1701.59) and the Ohio laws designed to encourage negotiated takeovers (R.C. 1701.831, 1707.041 and 1704). Ohio law already recognizes that corporate directors and officers may be liable in their individual capacities for acts of corporate fraud (see, e.g., Yo-Can, Inc. v. The Yogurt Exchange, Inc., 149 Ohio App.3d 513 (7th Dist. Ct. App. 2002)). Based on current liabilities and case law under the Ohio Securities Act, the Committee felt that the control person liability provisions of H.B. 7 and S.B. 7 should not be included if corporate accountability reform legislation is introduced in the 125th General Assembly.

Finally, Co-Chairperson David Zagore of Squire, Sanders & Dempsey suggested that any legislative proposals be

discussed with the Corporation Law Committee of the Ohio State Bar Association.

Enforcement Section Reports

Donald L. Dayer

On October 29, 2002, the Division issued a Cease and Desist Order, Division Order No. 02-331, to Donald L. Dayer of Tujunga, California.

The Division found that Donald L. Dayer violated Revised Code sections 1707.44(A)(1) and 1707.44(C)(1) by selling unregistered shares of stock in BidBay.com, Inc. while unlicensed as a securities dealer. The Division found that he was paid commissions for selling the securities. On July 9, 2002, the Division issued a Notice of Opportunity for Hearing, Division Order No. 02-181, to Donald L. Dayer pursuant to Revised Code Chapter 119.

The Division also notified Donald L. Dayer of his right to an adjudicative hearing pursuant to Chapter 119 of the Revised Code. A hearing was not requested and a final Cease and Desist Order was issued on October 29, 2002.

Mitchel R. Dukov; Mitchel R. Dukov Corporation; Teleglobal Systems, Inc.

On November 13, 2002, the Division issued a Cease and Desist Order and Consent Agreement, Division Order No. 02-339 to Mitchel R. Dukov, Mitchel R. Dukov Corporation and TeleGlobal Systems, Inc. of Westlake, Ohio.

On January 2, 2002, the Division issued a Notice of Opportunity for Hearing, Division Order No. 02-001, to Mitchel R. Dukov, Mitchel R. Dukov Corporation and TeleGlobal Systems, Inc. pursuant to Revised Code Chapter 119. An administrative hearing was requested and held on April 29-30, 2002. The hearing officer issued a Report and Recommendation on September 4, 2002. Mitchel R. Dukov, Mitchel R. Dukov Corporation and TeleGlobal Systems, Inc. entered into a Consent Agreement with the Division, stipulating and agreeing to the findings and conclusions set forth in the Report and Recommendation issued by the hearing officer. The hearing officer

and Cease and Desist Order found that Mitchel R. Dukov, Mitchel R. Dukov Corporation and TeleGlobal Systems, Inc. violated Revised Code section 1707.44(G) by failing to disclose material information in the sale of securities.

Raymond L. Leonard

On November 14, 2002, the Division issued a Cease and Desist Order, Division Order No. 02-341, to Raymond L. Leonard, Jr. dba Manufacturer's Asset Group, of Mission Viejo California.

The Division found that Raymond L. Leonard, Jr. dba Manufacturer's Asset Group violated Revised Code sections 1707.44(A)(1), 1707.44(C)(1) and 1707.44(G) by selling unregistered certificates for shares of stock in RODI Power Systems, Inc. while unlicensed as a securities dealer and by failing to disclose material information in the sale of securities. On October 10, 2002, the Division issued a Notice of Opportunity for Hearing, Division Order No. 02-320, to Raymond L. Leonard, Jr. dba Manufacturer's Asset Group pursuant to Revised Code Chapter 119.

The Division also notified Raymond L. Leonard, Jr. dba Manufacturer's Asset Group of his right to an adjudicative hearing pursuant to Chapter 119 of the Revised Code. A hearing was not requested, and a final Cease and Desist Order was issued on November 14, 2002.

Rodi Power Systems, Inc.

On November 15, 2002, the Division issued a Cease and Desist Order, Division Order No. 02-342, to RODI Power Systems, Inc., a Washington corporation.

The Division found that RODI Power Systems, Inc. violated Revised Code section 1707.44(C)(1) by selling unregistered securities to Ohio residents. On October 10, 2002, the Division had issued a Notice of Opportunity for Hearing, Division Order No. 02-321, to RODI Power Systems, Inc. pursuant to Revised Code Chapter 119.

The Division also notified RODI Power Systems, Inc. of its right to an adjudicative hearing pursuant to Chapter 119 of the Revised Code. A hearing was not requested and a final Cease and Desist Order was issued on November 15, 2002.

Michael William Patterson

On December 2, 2002, the Division issued Division Order No. 02-348, a Cease and Desist Order, against Michael William Patterson. Respondent's business address is in Ohio.

On October 31, 2002, the Division issued a Notice of Opportunity of Hearing, Division Order No. 02-333, to Michael William Patterson. The Division alleged that the Respondent violated the provisions of Revised Code Sections 1707.44(C)(1) and 1707.44(A)(1), respectively, by selling unregistered convertible promissory notes that did not meet the qualifications for the requested exemption for private placements pursuant to R.C. 1707.03(Q) and by doing so without being licensed as a securities dealer. The Division notified the Respondent of his right to an administrative hearing pursuant to Chapter 119 of the Revised Code. The Respondent failed to timely request an adjudicative hearing pursuant to Chapter 119 of the Ohio Revised Code. Therefore, the Division issued its Cease and Desist, Order No. 02-348 on December 2, 2002.

Bari L. Courts

On November 26, 2002, the Division issued Order No. 02-344, a Cease and Desist Order, against Bari L. Courts. From September of 2000 through December of 2000, Courts sold to an Ohio resident, on behalf of Emerging Business Concepts, Inc., an investment contract involving web booth kiosks. These interests in web booth kiosks are securities under the Ohio Securities Act but were not registered with the Division. Therefore, on October 24, 2002, the Division issued Order No. 02-325, a Notice of Opportunity for Hearing against Bari L. Courts for allegedly violating Revised Code Section 1707.44(C)(1), the unregistered sale of securities. The Respondent did not request a hearing pursuant to Chapter 119 of the Ohio Revised Code, thereby allowing the Division to issue its Cease and Desist Order No. 02-344 which incorporated the allegations set forth in the Notice of Opportunity for Hearing.

Sharon Foil Slough aka Sheri Slough

On September 18, 2002, the Division issued Order No. 02-307, a Cease and Desist Order, against Sharon Foil Slough.

In November of 1999, Slough sold to an Ohio resident, on behalf of BEE Communications, an investment contract involving payphones. These interests in payphones are securities under the Ohio Securities Act but were not registered with the Division. Furthermore, Slough's conduct with respect to selling the interests in payphones constituted her acting as a dealer, as defined by Revised Code Section 1707.44(E)(1), even though she was not licensed as such. Therefore, on August 14, 2002, the Division issued Order No. 02-287, a Notice of Opportunity for Hearing, against Slough for allegedly violating Revised Code Section 1707.44(C)(1), the unregistered sale of securities, along with Revised Code Section 1707.44(A)(1), selling securities to an Ohio resident without being licensed as a dealer. The Respondent did not request a hearing pursuant to Chapter 119 of the Ohio Revised Code, thereby allowing the Division to issue its Cease and Desist Order No. 02-307 which incorporated the allegations set forth in the Notice of Opportunity for Hearing.

Pete Peterson

On August 29, 2002, the Division issued Order No. 02-294, a Cease and Desist Order, against Pete Peterson of Anaheim California. In the fall of 1999, Peterson, on behalf of Heartland Asset Management, Inc., sold to an Ohio resident shares in The Heartland Equity Fund, a portfolio of public and private equities. These shares are securities under the Ohio Securities Act but were not registered with the Division. Therefore, on April 25, 2002, the Division issued Order No. 02-124, a Notice of Opportunity for Hearing against Peterson for allegedly violating Revised Code Section 1707.44(C)(1), the unregistered sale of securities. The Respondent did not request a hearing pursuant to Chapter 119 of the Ohio Revised Code, thereby allowing the Division to issue its Cease and Desist Order No. 02-294 which incorporated the allegations set forth in the Notice of Opportunity for Hearing.

Ronald K. Garnett

On August 29, 2002, the Division issued Order No. 02-294, a Cease and Desist Order, against Ronald K. Garnett of Fair fax, Virginia. In the fall of 1999, Garnett, as chief executive officer for Heartland Asset Management, Inc., sold to an Ohio resident shares in The Heartland Equity Fund, a portfolio of public and private equities. These shares are securities under the Ohio Securities Act but were not registered with the Division. Therefore, on April 25, 2002, the Division issued Order No. 02-124, a Notice of Opportunity for Hearing against Garnett for allegedly violating Revised Code Section 1707.44(C)(1), the unregistered sale of securities. The Respondent did not request a hearing pursuant to Chapter 119 of the Ohio Revised Code, thereby allowing the Division to issue its Cease and Desist Order No. 02-294 which incorporated the allegations set forth in the Notice of Opportunity for Hearing.

Heartland Asset Management, Inc.

On August 29, 2002, the Division issued Order No. 02-294, a Cease and Desist Order, against Heartland Asset Management, Inc., a Nevada corporation with a business address in Irvine, California. In the fall of 1999, Heartland Asset Management, Inc., sold to an Ohio resident shares in The Heartland Equity Fund, a portfolio of public and private equities. These shares are securities under the Ohio Securities Act but were not registered with the Division. Therefore, on April 25, 2002, the Division issued Order No. 02-124, a Notice of Opportunity for Hearing, against Heartland Asset Management, Inc. for allegedly violating Revised Code Section 1707.44(C)(1), the unregistered sale of securities. The Respondent did not request a hearing pursuant to Chapter 119 of the Ohio Revised Code, thereby allowing the Division to issue its Cease and Desist Order No. 02-294 which incorporated the allegations set forth in the Notice of Opportunity for Hearing.

Phillip C. Huber

On November 8, 2002, the Division issued Division Order No. 02-338, a Cease and Desist Order, to Phillip C. Huber of

Jacksonville, Florida, formerly of Lakewood, Ohio.

The Division found that Huber violated the provisions of Ohio Revised Code sections 1707.44(A)(1) and 1707.44(C)(1) by selling unregistered securities in the form of pay telephone and related service agreements for Alpha Telcom, Inc. and American Telecommunications Company, Inc., while he was unlicensed as a securities salesperson for American Telecommunications Company, Inc. The Division previously issued a Cease and Desist Order to Alpha Telcom, Inc. on July 26, 2001. The Division previously issued a Cease and Desist Order to American Telecommunications Company, Inc. on February 13, 2002.

The Division notified Huber of his right to an adjudicative hearing pursuant to Chapter 119 of the Revised Code in a Notice of Opportunity for Hearing, Order No. 02-286, issued on August 14, 2002. After legal publication was completed on the Division Order, a hearing was not requested and the Cease and Desist Order was issued on November 8, 2002.

Criminal Updates

On September 20, 2002, **Kevin Ostrowski** pled guilty in Lorain County Common Pleas Court to five counts of making misrepresentations in the sale of securities. Ostrowski had been indicted on January 30, 2002, on five counts each of selling unregistered securities and making false representations in connection with the sale of securities. Ostrowski, of Brunswick, Ohio, sold promissory notes of Pacific Air Transport and Lomas de la Barra to Ohio residents. The Division previously issued a Cease and Desist Order to Ostrowski in December 2000 for selling unregistered promissory notes and "selling away."

On November 1, 2002, **Kenneth E. Bailey, Jr.** was sentenced in Fairfield County Common Pleas Court to three years in prison and ordered to pay restitution of approximately \$2.5 million. The sentence was the result of Bailey's plea on August 8, 2002, of no contest on two counts of aggravated theft and nine counts of issuing false statements. Bailey sold limited partnership interests in Trendsetter Investments, Ltd. to approximately 90 investors from July 1998 through early 2001.

On November 12, 2002, **James C. Dodge** was indicted by a Logan County grand jury on fourteen counts, consisting of five counts of making false representations in connection with the sale of securities, three counts of securities fraud, three counts of theft, two counts of theft from an elderly person, and one count of forgery. The charges arose as a result of alleged sales of promissory notes of Bradbern Corporation and Wellco Acceptance Corporation to Ohio residents.

On November 13, 2002, a fifteen-count indictment was filed against **Paul A. Rendina** in Lake County, after he was indicted by a grand jury. The charges include three counts of securities fraud, three counts of making false representations in the sale of securities, one count of the sale of unregistered securities, two counts of aggravated theft, and six counts of grand theft. The charges relate to the alleged sale of securities by Rendina, a C.P.A., to elderly Ohio client/investors in his entities, Willowlake Rental Partnership #197 and 34101 GP, Inc. Rendina was arraigned on December 6, 2002, in Lake County Common Pleas Court.

On November 14, 2002, **Chad P. Copeland** was indicted by a Butler County grand jury on twenty-three counts, consisting of nine counts of making false representations in connection with the sale of securities, two counts of securities fraud, two counts of aggravated theft by deception, one count of grand theft, one count of money laundering, and eight counts of passing bad checks. The charges were based on Copeland's alleged sales of stock of Hot Shots, Inc. to an Ohio couple. A warrant was issued for Copeland's arrest after he failed to appear at his arraignment.

On December 12, 2002, **Gregory James Best** pled guilty in U.S. District Court in Akron to 14 counts in connection with his part of a scheme with Andrew Paul Bodnar, a former business associate currently serving seven years, to defraud hundreds of people out of millions of dollars. On November 5, 2001, Best was indicted in U.S. District Court in Akron on charges

of conspiracy, securities fraud, and mail fraud. Best was indicted on 22 additional federal counts on September 25, 2002, which included counts of conspiracy, securities fraud, interstate transportation of stolen property, and money laundering.

Division Seeks Criminal and Civil Actions Against Shiflett

On December 19, 2002, a Licking County Grand Jury indicted Vernon W. Shiflett on nine counts of securities fraud, 15 counts of false representations in the sale of securities and 11 counts of the sale of unregistered securities. All 35 counts pertain to the sale of Addmac Entertainment promissory notes. A pre-trial is scheduled for May 2, 2003.

In a related matter, on January 30, 2003, Shiflett salesman Paul Edwards was indicted by a Marion County Grand Jury on 11 counts of unlicensed sales of securi-

ties, 11 counts of unregistered sales of securities, 11 counts of false representations in the sale of securities and one count of a pattern of corrupt activity (RICO). All 28 counts pertain to the sale of Addmac Entertainment promissory notes.

The Division previously filed an injunctive complaint and motion for a temporary restraining order (TRO) in Franklin County Common Pleas Court on April 1, 2002 against Vernon W. Shiflett and 22 entities under his control for violations of the Ohio Securities Act. The Division's complaint alleged that Shiflett and his companies employed two fraudulent schemes to raise more than \$29,000,000 nationally from about 700 investors over the past three years. One scheme involved the sale of Addmac Entertainment promissory notes. The other scheme involved the sale of limited liability partnership interests.

On April 1, 2002, the Division obtained a TRO against Shiflett and his 22 entities and an order freezing Company assets. On April 23, 2002, the court issued an agreed preliminary injunction against Shiflett and his 22 entities and appointed a receiver to operate Shiflett's businesses. On November 26, 2002, the court granted an agreed permanent injunction that enjoined Shiflett and the twenty-two entities from further violations of the Ohio Securities Act and ordered Shiflett to cooperate with the court-appointed receiver's efforts to recover investor funds.

OHIO SECURITIES CONFERENCE 2003

Remember to check in future issues regarding the 2003 Ohio Securities Conference. For the latest information, please contact the Division at 614-644-7381 or check the website at www.securities.state.oh.us

presented by
The Ohio Division of Securities
The Cybersecurities Law Institute at the University of Toledo College of Law

Capital Formation Statistics*

Because the Division's mission includes enhancing capital formation, the Division tabulates the aggregate dollar amount of securities to be sold in Ohio pursuant to filings made with the Division. As indicated in the notes to the table, the aggregate dollar amount includes a value of \$1,000,000 for each "indefinite" investment company filing. However, the table does not reflect the value of securities sold pursuant to "self-executing exemptions" like the "exchange listed" exemption in R.C. 1707.02(E) and the "limited offering" exemption in R.C. 1707.03(O). Nonetheless, the Division believes that the statistics set out in the table are representative of the amount of capital formation taking place in Ohio.

*Categories reflect amount of securities registered, offered, or eligible to be sold in Ohio by issuers.

**Investment companies may seek to sell an indefinite amount of securities by submitting maximum fees. Based on the maximum filing fee of \$1100, an indefinite filing represents the sale of a minimum of \$1,000,000 worth of securities, with no maximum. Consequently, for purposes of calculating an aggregate capital formation amount, each indefinite filing has been assigned a value of \$1,000,000.

Filing Type	4th Qtr 2002	YTD 2002
Exemptions		
Form 3(Q)	\$50,224,940	\$744,506,458
Form 3(W)	5,985,000	33,729,580
Form 3(X)	28,354,716,167	250,436,801,767
Form 3(Y)	236,807	420,737,807
Registrations		
Form .06	376,657,500	2,179,917,844
Form .09/.091	5,874,010,966	28,164,311,415
Investment Companies		
Definite	88,704,500	3,397,964,298
Indefinite**	523,000,000	2,214,000,000
TOTAL	\$35,273,535,880	\$287,591,969,169

Registration Statistics

The following table sets forth the number of registration, exemption, and notice filings received by the Division during the fourth quarter of 2002, compared to the number of filings received during the fourth quarter of 2001. Likewise, the table compares the year-to-date filings for 2002 and 2001.

Filing Type	4th Qtr '02	YTD '02	4th Qtr '01	YTD '01
1707.03(Q)	32	131	33	141
1707.03(W)	3	18	3	19
1707.03(X)	262	1044	272	1092
1707.03(Y)	1	10	1	16
1707.04/.041	0	5	1	3
1707.06	13	76	16	82
1707.09/.091	53	185	46	169
Form NF	1062	4415	1060	4674
1707.39/.391	20	54	14	75
Total	1447	5941	1446	6271

Licensing Statistics

License Type	YTD 2002
Dealer	2,270
Salespersons	126,400
Investment Adviser/Notice Filers	441
Investment Adviser Representative	8,442



OHIO SECURITIES BULLETIN

*Ohio Department of Commerce
Division of Securities
77 South High Street
22nd Floor
Columbus, Ohio 43215-6131*