OHIO SECURITIES BULLETIN

RICHARD F. CELESTE
GOVERNOR

LINDA K. PAGE
DIRECTOR OF COMMERCE

MARK V. HOLDERMAN
COMMISSIONER OF SECURITIES

89:2 Spring Quarter 1989

Penny Stock

The epidemic of penny stock fraud is costing the public hundreds of millions of dollars each year. Penny stocks are low-priced stocks whose prices are typically not quoted on any exchange or nationwide market trading system. These stocks are thinly traded and are often dominated and controlled by a single brokerage firm that makes a market in the stock. Some of these issues represent ownership in a bona fide small company; others may be blank check blind pool stocks of shell companies that exist only to merge with unspecified companies.

A penny stock fraud operates in the following manner. Promoters assign themselves millions of shares of stock at a fraction of a cent per share, or at no cost at all. A prospectus is prepared. The stock is offered at five or ten cents per share. The broker, who is also the market maker, devises a plan to dominate and control the purchase and sale of the stock by parking the securities in nominee accounts. Once the offering is sold out, the broker repurchases the nominee stock, and stock of customers who bought the new issues, and immediately resells it to a new group of customers. The secondary market may be artificially determined before any trading begins, and manipulated up through several cycles of buying and selling between customers. Smooth-talking brokers use high pressure tactics to lure investors into purchasing the stock. The price paid by the second group of customers is typically 50% to 200% higher than the price paid to repurchase the stock from the first group of investors. After the share price reaches several dollars, the promoters withdraw their investment and the stock price plunges.

Efforts by regulators to curb abuses in the penny stock market are increasing. Penny stock fraud was once primarily a regional problem centered in Denver and Salt Lake City, but concern has spread nationwide, with problems arising in Miami, Chicago, Atlanta, and Los Angeles.

One of Denver's worst problems has been the proliferation of blank check offerings, resulting in many enforcement actions and civil suits. The actions alleged misappropriation of funds, undisclosed prearranged mergers, and other disclosure violations. Utah also began a crackdown on blank check blind pool offerings. Utah passed a new regulation in 1986 requiring blind pool promoters to use only 20% of the money raised on management, with 80% to be placed in escrow. The money placed in escrow cannot be used until the promoters disclose to investors what their plans for the money are and investors are given a chance to withdraw. NASAA members have proposed that states either prohibit blank check issues or require the promoter to disclose in the prospectus the exact purpose for which the money will be used.

David Ruder, chairman of the SEC, stated that penny stock fraud is a top agency priority, and in October, 1988, established a task force to study penny stock manipulation. The task force is taking a three-pronged approach to penny stock fraud through increased enforcement efforts, investor education, and review of the regulatory framework. Proposed Rule 15c2-6 represents the beginning of several rule-making initiatives in this area.

The SEC's proposal of Rule 15c2-6 is designed to protect investors from penny stock fraud by setting limits on cold calling. The proposed rule addresses two aspects of cold calling: high pressure sales tactics, and recommendation of highly speculative securities. Provisions in Proposed Rule 15c2-6 require a broker-dealer to obtain written customer agreements

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and to determine the suitability of the proposed investment for the customer. The rule would prohibit sales based on cold calls to new customers, and require brokers to keep documentation on information about the customer's investment experience, objectives, and financial status.

The Division has commented in support of Rule 15c2-6, but its future is uncertain due to strong industry opposition on some aspects.

The Ohio Division of Securities is also addressing penny stock fraud by taking a three-step approach. The first step is to closely monitor broker applications, net worth reports, and allegations of fraud, and to deny, suspend, or revoke licenses in appropriate cases. The second focus has been to actively investigate the many complaints received regarding penny stock brokers. The current emphasis of the Enforcement Section is to prevent future violations by vigorously prosecuting securities law violators. For example, the Division is seeking extradition from California of one suspected operator.

The third and most important step has been investor education. This involves informing investors of important factors to evaluate when choosing a brokerage, and using resources such as the *Investor Alert!*, published jointly by the North American Securities Administrators Association and the Council of Better Business Bureaus. With this three-step approach, the Division can aid in reducing penny stock manipulation.

Jeanette Capocasale

Scienter in Ohio Securities Act Fraud

When an allegation of fraud is made under the Ohio Securities Act, the requirement of scienter is often raised as an issue. Obviously, some element of scienter is required. However, the required scienter can be proved more easily than expected under the Ohio Securities Act.

The basic fraud provisions of the Ohio Securities Act are contained in Sections 1707.44(G) and 1707.41 of the Revised Code. Section 1707.44(G) of the Revised Code states:

> No person in selling securities shall *knowingly* engage in any act or practice which is, in sections 1707.01 to 1707.45 of the Revised Code, declared illegal, defined as fraudulent, or prohibited. [Emphasis added.]

Section 1707.41 of the Revised Code states in part:

> [A]ny person who, by a written or printed circular, prospectus, or advertisement, offers any security for sale, or receives the profits accruing from such sale, is liable, ... by reason of the falsity of any material statement contained therein or for the omission therefrom of material facts, unless such offeror ... establishes that he had no *knowledge* of the publication ... or had just and reasonable grounds to believe such statement to be true .... [Emphasis added.]

The scienter language in those statutes is focused upon the words "knowingly" and "knowledge." The traditional crimi-

nal law standard of "knowingly" is fairly stringent. Section 2901.22(B) of the Revised Code defines it as follows:

> A person acts knowingly regardless of his purpose, when he is aware that his conduct will probably cause a certain result or will probably be of a certain nature. A person has knowledge of circumstances when he is aware that such circumstances probably exist.

Under the Ohio Securities Act, the traditional meaning of "knowingly" or "knowledge" has been altered. More specifically, Section 1707.29 of the Revised Code states:

> In any prosecution brought under sections 1707.01 to 1707.45 of the Revised Code, . . . the accused shall be deemed to have had knowledge of any matter of fact, where in the exercise of *reasonable diligence*, he should, prior to the alleged commission of the offense in question, have secured such knowledge. [Emphasis added.]

Section 1707.29 has been unsuccessfully challenged on constitutional grounds. In *State v. Trevedi*, 8 Ohio App. 3d 412, 413 (Hamilton Cty. 1982), the court stated, "Briefly, we find R.C. 1707.29 to be constitutional and the presumption created therein to be permissive and rebuttable."[1] Thus, an accused can establish that he lacked the knowledge required of the offense.[2]

Similarly, with regard to civil liability, Section 1707.41 of the Revised Code states in part:

> Lack of reasonable diligence in ascertaining the fact of such publication or the falsity of any statement contained in it or of the omission of such material fact shall be deemed knowledge of such publication and of the falsity of any untrue statement in it or of the omission of material facts.

Therefore, the scienter standard under the Ohio Securities Act may not be as difficult a requirement to satisfy in comparison to traditional criminal law scienter standards.

The term "reasonable diligence" as used in Sections 1707.29 and 1707.41 of the Revised Code is analogous to a negligence standard.[3] The criminal law negligence standard in Section 2901.22(D) states:

> A person acts negligently when, because of a substantial lapse from due care, he fails to perceive or avoid a risk that his conduct may cause a certain result or may be of a certain nature. A person is negligent with respect to circumstances when, because of a substantial lapse from due care, he fails to perceive or avoid a risk that such circumstances may exist.

Thus, the "knowingly" and "knowledge" standards of Sections 1707.44(G) and 1707.41 of the Revised Code are modified by Sections 1707.29 and the "reasonable diligence" language of 1707.41 of the Revised Code. The result is that scienter for the Ohio Securities Act fraud provisions is more comparable to criminal law negligence as defined in Section 2901.22(D) of the Revised Code than "knowingly" as defined by Section 2901.22(B) of the Revised Code.

The courts have supported an interpretation of scienter based on negligence in criminal prosecutions of securities laws. In *State v. Walsh*, 66 Ohio App. 2d 85, 95 (Franklin Cty. 1979), the court stated, "... R.C. 1707.29 has the general effect of defining 'knowingly' more in terms of 'negligently' as defined by 2901.22(D) rather than 'knowingly' as defined by 2901.22(B)." On the civil side, the court in *State v. American Equitel Corp.*, 60 Ohio Misc. 7, 24 (Franklin Cty. C.P., 1979) stated that Section 1707.29 of the Revised Code is applicable to civil cases.

> Use of the words "prosecution", "accused" and "offense" seem to imply that this section applies to criminal cases, but as the Ohio Securities Act is a remedial law, this section should be construed liberally to include any litigation, not just criminal. R.C. 1.11. A similar presumption of knowledge in civil fraud actions is contained in R.C. 1707.41.

To avoid falling prey to this negligence standard, a seller of securities who makes representations must exercise reasonable diligence in determining *when* to acquire the facts behind the representation as well as exercise reasonable diligence in ascertaining the *truth* of those facts acquired. A good faith standard requires this. As stated in *State v. Walsh*, at 95,

> [A] good-faith belief in the existence of the fact as represented creates no criminal liability, since one cannot have a good-faith belief in facts which he should know to be otherwise had he exercised reasonable diligence. Good faith necessarily implies the exercise of reasonable diligence to ascertain the true state of facts.[4]

Sections 1707.29 and 1707.41 have simplified fraud cases under the Ohio Securities Act. These statutes have enabled fraud cases, both civil and criminal, to continue on a negligence theory. Hopefully, this should lead to full and accurate disclosure of information to investors.

Mark Heuerman

[1]Also, *State v. Walsh*, 66 Ohio App. 2d 85, 94 (Franklin Cty. 1979). "However, defendant contends that this jury charge is contrary to the presumption of innocence of the defendant, in effect creating a presumption of knowledge. Although we agree with the state that R.C. 1707.29 does not create a presumption, even if the statute is construed to create a presumption, it would not constitute a mandatory or conclusive presumption but, instead, a permissive or rebuttable presumption . . ."

[2]*Id.* at 94, 95. "The trial court expressly so instructed the jury, stating: 'If the defendant had an honest belief in the existence of such facts and acted in accordance of the facts as he believed them to be, he is not guilty of selling securities fraudulently, as knowledge is an essential element of that crime.' "

[3]"Reasonable diligence" is not a term contained in Section 1707.01, the definitional section of the Ohio Securities Act. The term is defined in *BLACK'S LAW DICTIONARY*, 412 (5th ed. 1979): "A fair, proper and due degree of care and activity, measured with reference to the particular circumstances; such diligence, care, or attention as might be expected from a man of ordinary prudence and activity."

[4]Also, *State v. American Equitel Corp.*, 60 Ohio Misc. 7, 25 (Franklin Cty. C.P. 1979). "Lack of reasonable diligence in ascertaining the fact of such publication or the falsity of any statement contained in it shall be deemed knowledge of such publication and of the falsity of any untrue statement in it."

Securities Conference

The Division is planning to continue in 1989 the Securities Conference which was renewed in November, 1988. This year's Securities Conference is scheduled to be held on Monday, October 30, 1989, at the Marriott North in Columbus, Ohio.

The panel discussions will consider subjects on Litigation—Remedies, Arbitration, Business Acquisitions, and Division Activities and Procedures.

Meetings of the five advisory committees are to be held on October 31, 1989, at the same location. Advisory committees include Registration, Takeover, Enforcement, Exemptions, and Licensing.

Further information about the Conference and meetings will be distributed in the near future.

Personnel

Richard G. Porter joined the Division in May, 1989, as a staff attorney in the enforcement section. Richard is a graduate of the College of Law at Ohio State University and most recently was an Assistant Prosecuting Attorney with the Franklin County Prosecutor's Office.

Norman A. Essey, an attorney in the enforcement section for the past three years, left the Division in May, 1989, to take employment in private industry. The Division wishes Norm well in his future endeavors.

Debra L. Dye Joyce, an attorney in the registration section, left the Division in June, 1989, to accept a position with the Division of Savings and Loan of the Ohio Department of Commerce. Debbie had been with the Division since May, 1986. The Division wishes her well in her new position with our sister agency.

Jeanette E. Capocasale, a senior this fall at Capital University College of Law, joined the Division in June, 1989, to work as a legal intern during the summer months.

Outstanding Employee Award

The team of personnel from several sections of the Division who organized, supervised, and directed the Division office move in December, 1988, to the Vern Riffe Center Building at 77 South High Street, Columbus, Ohio, was selected as the recipient of the Division's Outstanding Employee Award for the quarter ending March 31, 1989. Members of the team include Nick Caraccilo, Debra Chafin, Bill Lively, Joyce Cleary, Ken Geist, Mary Spahia and Nancy Benton.

Interesting Reading

Stout, *The Unimportance of Being Efficient: An Economic Analysis of Stock Market Pricing and Securities Regulation*, 87 MICH. L. REV. 613 (1988).

Lynn Stout has written a long overdue article on the problems of mixing legal and economic analysis. Beginning with the observation that it has become almost an article of faith that the stock market is efficient, Stout raises a number of issues long glossed over by other writers.

Beyond merely observing that the empirical research showing market inefficiency is far more persuasive than those arguing for market efficiency, Stout argues that the issues of market efficiency are *irrelevant* to policies of securities regulation. How is exchange price efficiency relevant to insider trading? How is exchange price efficiency related to pricing of initial public offerings? Is an efficient exchange market at all related to efficient resource allocation? Is the investor interested in "efficient" losses or inefficient profits?

Finally, Stout analyzes some of the serious and potentially perverse social implications of presuming market efficiency or even attempting to achieve market efficiency. Will the "fraud on the market doctrine" eliminate the desire of investors to read prospectuses? Will management be more concerned with an efficient stock price than with high earnings?

Amanda Acquisition v. Universal Foods, Easterbrook, J. (7th Cir. 5/24/89)

In the past, Judge (then Professor) Easterbrook wrote a number of articles in opposition to all substantive takeover regulations and advocating total management passivity in the face of a hostile tender offer. More specifically, the professor came to be identified with a group of scholars who have increasingly used statistical economic data for the purpose of formulating political policy and legal doctrine.

In this opinion, however, Judge Easterbrook rules that the Wisconsin "third generation" takeover statute is constitutional. In doing so, the judge sets forth an excellent exposition on the distinction between economic analysis and constitutional analysis. As the judge observes: "Skepticism about the wisdom of a state's law does not lead to the conclusion that the law is beyond the state's power. . . ."

The judge also gives a concise and very current review of the distinction between state corporate law and federal securities law (does the Williams Act preempt state laws that allow many firms to organize without traded shares?) as well as a discussion of the Commerce Clause as an antidiscrimination provision.

This twenty-one page opinion is a concise and well-written tutorial by a judge who knows the material backwards and forwards. In the future it is likely that this opinion will be cited as often for its clarity as for its precedent.

Shipman, *The Case for Reasonable State Regulation of Corporate Takeovers: Some Observations Concerning the Ohio Experience*, 57:2 CIN. L. REV. 507 (1988).

Professor Shipman's articles are always good reading, but this article stands out for being very comprehensive without being turgid. Professor Shipman discusses the original cases setting forth the primacy of state law, the key cases discussing the constitutional parameters of state takeover laws, and latter-day cases dealing with the conduct of target directors and mixtures of defensive tactics.

One's natural reaction to this article's title might be: "Oh no, not another takeover article!" But in this article, Professor Shipman does an excellent job of summarizing the past twenty-five years of relevant law and excerpts key passages from important cases without the distraction of excessive citation. This is one of the best takeover articles of 1988, and doubly so for Ohio practitioners.

Rowe, *Rescission Offers Under Federal and State Securities Law*, 12:2 J. CORP. L. 383 (1987).

Advisory Committees

Exemptions Advisory Committee

Two members of the Exemptions Advisory Committee have submitted to the committee separate proposals for addition to and replacement of certain administrative rules.

The first proposal would add to O.A.C. Rule 1301:6-3-03(N) an exemption for sales of securities under compensatory benefit plans. The exemption would be made pursuant to Section 1707.03(V) of the Revised Code and would exempt the sale of any security exempted from registration under the Securities Act of 1933 (15 U.S.C. 77a et seq.) by Rule 701 thereunder (Section 230.701 C.F.R.), or any amended or successor rule or regulation. Any commissions, discounts, or other remuneration paid in connection with the sale of these securities in Ohio could be paid or given only to dealers or salesmen licensed as such under Chapter 1707. of the Revised Code.

The second proposal would replace paragraph (C) of the present O.A.C. Rule 1301:6-3-02. The proposed rule seeks to define the commercial paper and the promissory notes which are exempt under Section 1707.02(G) of the Revised Code. The new paragraph (C) would be entitled "(C) Non-public offering of promissory notes or commercial paper."

Under this proposal, the exemptions under Section 1707.02(G) of the Revised Code would first apply to the offer and sale of promissory notes, regardless of their maturity, which are part of a transaction where each purchaser also purchases equity securities which are exempt from registration under Section 1707.03(O) of the Revised Code. A further condition for obtaining the exemption would require that the offer and sale of the promissory notes also comply with the conditions of clauses (1) through (6) of Section 1707.03(O) of the Revised Code.

Secondly, the exemptions under Section 1707.02(G) of the Revised Code would also apply to the offer and sale of any debt security which has a maturity not in excess of one year, if offered and sold in a transaction exempt from the provisions of Section 5 of the Securities Act of 1933 under Section 4(2) of that Act or any rule of the Securities and Exchange Commission made to carry out Section 4(2) of that Act in effect at the time of the sale.

A third exemption has been submitted which would apply to the offer and sale of commercial paper and promissory notes to any officer or director of the issuer thereof. This exemption would be extended to include any person controlled by, under common control with, or controlling the issuer.

Additional proposals may be submitted in the near future.

Enforcement Advisory Committee

The **Litigation Subcommittee** held several teleconferences this spring to discuss selected topics. The subcommittee suggested that the Division write an interpretation or policy statement in the *Bulletin* regarding document production pursuant to R.C. § 1707.12. The subcommittee agreed that plenary discussion of Division fining authority in enforcement cases was warranted, and also agreed to develop proposals for amending R.C. § 1707.43.

The **Issuer Compliance Subcommittee** is getting ready to discuss proposals submitted by committee members to change Division rules regarding the definition of "date of sale" under R.C. § 1707.03(O) and (Q), and retroactive qualification of mutual fund oversales. A report on possible changes in the methods of implementing R.C. §§ 1707.39 and 1707.391 has been drafted by a subcommittee task force and will be circulated soon for discussion by the subcommittee.

Persons desiring to join the Enforcement Advisory Committee, or participate in one or more of the subcommittees, should contact either Charles Dugan or Becky Robbins-Penniman.

Licensing Advisory Committee

One of the major concerns of the committee was "mandatory arbitration clauses." On March 22, 1989 a letter from the Securities Industry Association (S.I.A.) to NASAA was distributed to the committee members.

In 1989, Co-chairmen Dale Jewell and James Francis have met twice to discuss the current status of "mandatory arbitration" and potential topics of concern to be discussed this Fall.

Broker-Dealer

EXAMINATION PRE-NOTIFICATION

Effective June 26, 1989, the Division will no longer be giving pre-notification of broker-dealer examinations. The main office and branch office examinations will be done on an unannounced basis.

As you may be aware, the Ohio Administrative Code 1301:6-3-15(F)(1) requires

> Every dealer shall keep and maintain books and records which shall be adequate to enable the division to determine at all times the financial condition of such dealer and to disclose fully all the transactions entered into by such dealer. The division may examine on an annual basis, or at such times as it shall deem fit, the books and records of each dealer.

DEALER AND SALESMAN LICENSES AS OF JUNE 30

	1989	1988
Broker-Dealer	1,667	1,701
Salesman	55,614	54,377

Registration

REGISTRATION FILINGS

Form Type	Spring Quarter 1989	Year to Date 1989	Spring Quarter 1988	Year to Date 1988
2(B)	299	523	246	482
3-O	3,053	6,345	2,847	6,230
3-Q	313	762	355	773
3-W	39	73	59	93
04	2	2	1	2
041	1	1	1	3
041(B)(4)	0	0	0	1
5(A)	0	0	0	1
6(A)(1)	67	131	101	161
6(A)(2)	15	43	40	74
6(A)(3)	5	19	16	31
6(A)(3)OG	1	1	0	0
6(A)(4)	17	37	27	51
09	364	558	342	674
09OG	0	0	2	3
091	402	890	490	911
10	0	0	0	0
39	48	109	50	83
391/09	7	9	3	5
391/3-O	193	406	190	379
391/3-Q	46	90	43	109
391/3-W	2	6	0	3
391/6(A)(1)	1	3	1	2
391/6(A)(2)	0	0	0	0
391/6(A)(3)	0	3	0	1
391/6(A)(4)	0	0	0	1
TOTAL	4,875	10,011	4,814	10,073

Enforcement

FINAL ADMINISTRATIVE ORDERS

The following are recent enforcement administrative orders. The orders have been issued by the Division after notice of the parties' opportunity for an administrative hearing in accordance with Ohio Revised Code Chapter 119. Orders which have been appealed to Common Pleas Court are so noted.

Respondent	Date Issued	Order No.	Action Taken/ Type of Order
Pro-Long Industries Tustin, California	3/2/89	89-031	Cease & Desist
Pan Am Commodity Traders, S.A. Costa Rica, Central America	3/2/89	89-032	Cease & Desist
Cowen and Company New York, New York	3/20/89	89-028	Cease & Desist
CDA Securities, Inc. Spokane, Washington; **John Ross Coghlan** Spokane, Washington	3/29/89	89-040	Revocation of Broker/Dealer and Securities Salesman's Licenses
David Sharock Mansfield, Ohio	4/5/89	89-044	Cease & Desist

FINAL ADMINISTRATIVE ORDERS—*continued*

Respondent	Date Issued	Order No.	Action Taken/ Type of Order
The Infield, Inc.; **Robert John Minnich** Cincinnati, Ohio	4/6/89	89-045	Cease & Desist
N.C.C. Oil and Gas Exploration, Inc. Mannford, Oklahoma; **James Harry Bray** Sepulpa, Oklahoma; **Jerry Floyd** Sand Springs, Oklahoma	4/6/89	89-046	Cease & Desist
Beuret & Company New York, New York	4/12/89	89-052	Revocation of Broker/Dealer License
Scan Funding, Inc. Form 3(Q), File No. 345138 Form 3(O), File No. 349861 Barberton, Ohio	4/25/89	89-056	Cease & Desist Null & Void of Partial Filings
William D. Roszel Golden, Colorado	4/26/89	89-057	Salesman of Securities found to be of Good Business Repute
Texas Triad Resources Company; **Worldwide Triad Resources Corporation;** **Richard M. Oliveri** Dallas, Texas	5/8/89	89-058	Cease & Desist
Kenneth A. Jackson Wooster, Ohio	5/8/89	89-059	Cease & Desist
Marketing Solutions, Inc. Form 3(Q), File No. 367557 Reynoldsburg, Ohio	5/16/89	89-060	Cease & Desist Null & Void of Partial Filing
Marketing Solutions, Inc. Form 3(Q), File No. 357427 Reynoldsburg, Ohio	5/12/89	89-061	Cease & Desist Null & Void of Partial Filing
Marketing Solutions, Inc. Form 3(Q), File No. 364687 Reynoldsburg, Ohio	5/12/89	89-062	Cease & Desist Null & Void of Partial Filing
Marketing Solutions, Inc. Form 3(O), File No. 343911 Reynoldsburg, Ohio	5/12/89	89-063	Cease & Desist Null & Void of Partial Filing
Consolidated Asset Management Fund Wayne, Pennsylvania	5/17/89	89-064	Cease & Desist
Ronald R. Adams; **Rabble Rouser Lures, Inc.** New Philadelphia, Ohio	5/12/89	89-065	Cease & Desist
Investor Center Incorporation Hauppague, New York	5/24/89	89-068	Revocation of Broker/Dealer License
United Houston Oil & Gas, Inc.; **Peter Fonatsch, Vice President** Shreveport, Louisiana	5/25/89	89-070	Cease & Desist

FINAL ADMINISTRATIVE ORDERS—*continued*

Respondent	Date Issued	Order No.	Action Taken/ Type of Order
Abaco Cleaners, Inc. Hemet, California **Ed D. Footit** Aransas Pass, Texas **Robert A. Bialik** Aransas Pass, Texas	5/31/89	89-076	Cease & Desist

CRIMINAL CASES

Case Name	Jurisdiction/ Referring Staff Person	Action Taken	Comments
Margaret Whiteside	Columbiana County/ Referred by Corey Crognale	1. Secret indictment returned on 3/2/89 for the following: a. 14 counts of unlicensed sales of securities; b. 1 count of aggravated theft; c. 1 count of securities fraud; and d. 1 count of engaging in a pattern of corrupt activity. 2. Pled not guilty on 5/4/89 to all 17 counts.	Margaret Whiteside allegedly sold more than $660,000 in phony securities, stock, and certificates of deposit. She issued phony statements on company letterhead, while employed by the Independent Order of Foresters. Ms. Whiteside was arrested in Virginia and fought extradition to Ohio. The indictments were sealed until she was arraigned.
William Baer; Ralph Lee	Licking County/ Referred by Norman Essey	1. Pled guilty on 4/3/89 to 2 counts each of securities violations 2. a. Baer was sentenced to 1-1/2 years on each count, to be served consecutively. The sentence was suspended and probation of 5 years and restitution of $9,500 was ordered. b. A pre-sentence report was ordered for Lee.	William Baer and Ralph Lee each pled guilty to 2 counts of securities violations in connection with promissory notes they sold purportedly payable by Group III Marketing, Inc. Investors complained after interest payments were late and conflicting explanations were provided.
Gary Trudell	Franklin County/ Referred by Karen Terhune	1. Extradited from Arizona on 4/20/89. 2. Arraigned on 4/22/89 at which time a $10,000 bond was ordered.	Gary Trudell was indicted on 4 counts of securities violations for allegedly selling units in a nonexistent fund, the Aggressive Cash Management Fund, while he was employed by American Heritage Research, Inc., and Heritage Research, Inc.
Donald Coots	Wayne County/ Referred by Karen Terhune	1. Criminal complaints filed on 5/12/89 alleging 4 counts of securities violations. 2. Preliminary hearing held 5/30/89, where probable cause was found.	Donald Coots allegedly sold securities illegally, while doing business as Don H. Coots and Associates.