



RICHARD F. CELESTE
GOVERNOR

NAPPY M. HETZLER
ACTING DIRECTOR OF COMMERCE

MARK V. HOLDERMAN
COMMISSIONER OF SECURITIES

90:1 Winter Quarter 1990

New Federal Regulation 15c2-6 Governs Sales of Penny Stocks

By S.B. Robbins-Penniman

BACKGROUND AND PURPOSE OF THE RULE

A new regulation promulgated by the United States Securities and Exchange Commission is expected to have a strong impact on securities dealers who do business in the over-the-counter stock market. Officially titled "Sales Practice Requirements for Certain Low-Priced Securities,"¹ it is commonly known as the "Penny Stock Cold Call Rule" or the "Suitability Rule." The rule was adopted last summer, and became effective on January 1, 1990.

The new rule was adopted as part of the S.E.C.'s campaign to reduce fraud and manipulation in the market for penny stocks, which has included the creation of the Penny Stock Task Force to coordinate federal enforcement, regulatory, and educational efforts in this area. The comment which accompanied the rule described the purpose of the rule to be:

to address the widespread incidence of misconduct by some broker-dealers in connection with transactions in low-priced securities. In particular, the [Rule] was intended to prevent the indiscriminate use by broker-dealers of fraudulent, high pressure telephone sales campaigns to sell such securities to unsophisticated investors.²

The S.E.C. described the problem as particularly acute in the non-NASDAQ over-the-counter market, noting that most of the issuers of these stocks often are not subject to Exchange Act reporting requirements, and that unsophisticated investors may not appreciate the vast difference between the various types of exchanges and markets.³

In reviewing the prevalent types of fraudulent practices, the S.E.C. specifically identified high-pressure, unsolicited calls made to sell securities, without regard to whether the transaction was suitable for the investor. Thus, in developing the rule, the S.E.C. developed procedural requirements which would address these common areas of abuse.

EFFECT OF RULE 15c2-6 ON OHIO SECURITIES DEALERS

In promulgating the new rule, the S.E.C. made clear that the requirements were intended to be far-reaching. The Release states, in footnote 7: "Rule 15c2-6, although denominated under section 15(c) of the Exchange Act, 15 U.S.C. 78o(c), also was proposed, and herein is adopted, under the Commission's authority in sections 3, 10, 15, and 23 of the Exchange Act. . . ."⁴ The reach of the rule, therefore, is not necessarily limited to securities dealers registered with the S.E.C. For example, §10 of the Exchange Act provides, in part, that:

It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce or of the mails, . . .

(b) To use or employ, in connection with the purchase or sale of any security registered on a national exchange or any security not so registered, any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors.⁵

The first part of Rule 15c2-6 states that the required procedures are "a means reasonably designed to prevent fraudulent,

Table of Contents

OHIO SECURITIES BULLETIN
Publication of the
Ohio Department of Commerce
Division of Securities
77 South High Street, 22nd Floor
Columbus, Ohio 43266-0548
Carol L. Barnum, Editor

New Federal Regulation 15c2-6 Governs Sales of Penny Stocks	1
Register Old Mutual Funds	3
N.A.S.A.A. Guidelines	3
Personnel	3
Outstanding Employee Award	3
Interesting Reading	3
Broker-Dealer	5
Registration	5
Enforcement	6

Ohio Department of Commerce
Division of Securities

All listings are area code (614)

ADMINISTRATION

Information and Form Requests	644-7381
Mark Holderman Commissioner	644-7381
Paul Tague Deputy Commissioner	644-7463
Clyde Kahl Counsel to Commissioner	644-7421
Bill Leber Legislative Liaison	752-8727
Richard A. Pautsch CPA	752-9448

BROKER-DEALER

Information	466-3466
Dale Jewell Supervisor	644-7465
Greg Betchkal Attorney	752-9186

RECORDS MANAGEMENT

Information	466-3001
Debra Chafin Supervisor	644-7449

FISCAL OFFICE

Information	644-7453
Nick Caraccilo Manager	644-7455

ENFORCEMENT

Information	466-6140
Sylvia B. Robbins-Penniman Attorney Inspector	644-7413
Karen Terhune Assistant Manager	644-7411
Melanie Braithwaite Attorney	466-8109
Erwin Dugas, Jr. Examiner	644-9498
Bill Henry Attorney	466-1082
Don Hershberger Examiner	644-7417
Mark Heuerman Attorney	644-9529
Bob Holodnak Attorney	644-7387
Richard G. Porter Attorney	644-7419
D. Michael Quinn Attorney	644-7293
Sid Silvian Attorney	644-7389
Mary Spahia Attorney	644-7395
Joyce Cleary Examinations Section	644-7467
Nancy Benton Inquiries	644-7385

REGISTRATION

Information	466-3440
Michael Miglets Attorney Examiner—Administrator	644-7295
Carol L. Bamum Attorney Examiner—Partnerships	644-7373
Jo Chapman Form 3-O	644-7429
Jim Hunt Attorney Examiner—Forms 3-Q & 3-W	644-7435
Bill Lively Form 2(B)	644-7459
Gordon Stott Forms 39 & 391	644-7427
Kathy Veach Mutual Funds	644-7423
James Warneka Oil and Gas	644-7433

deceptive, or manipulative acts or practices. . . .⁶ Because the rule is an anti-fraud rule as well as a procedural one, it appears that any securities dealer who uses an instrumentality of interstate commerce, including the telephone or the mail, is included within the ambit of the rule, whether or not the dealer is registered with the S.E.C. Securities dealers may wish to consult with legal counsel to review this issue.

REQUIREMENTS OF RULE 15c2-6

The text of the rule is not lengthy, and all dealers are encouraged to read the provisions in full in determining their compliance responsibilities. Generally speaking, however, the rule makes it unlawful for a securities dealer to effect a transaction in a Designated Security unless the pre-transaction requirements are met, or unless an exemption applies. The requirements may be summarized as follows:

- "Designated Security" is defined as
 - any non-NASDAQ over-the-counter equity security if
 - the issuer has less than \$2,000,000 in net tangible assets.
- Pre-transaction requirements are that:
 - the securities dealer approve the transaction after obtaining sufficient information from the purchaser to make an appropriate suitability determination, and
 - the purchaser provide a written agreement to the transaction, and
 - the purchaser provide a signed copy of the suitability statement.
- Transactions are exempt if:
 - the price of the security is five dollars or more, or
 - the purchaser is an "accredited investor" or an established customer of the securities dealer, or
 - the transaction was not recommended by the securities dealer, or
 - the securities dealer is not a market maker in the Designated Security and the securities dealer obtained less than five percent of its sales revenue from transactions in Designated Securities.⁷

EXAMINATIONS AND VIOLATIONS

The S.E.C. has begun a series of targeted examinations to review compliance with the rule. In addition, the Division will monitor compliance with the rule during state examinations and may refer cases to the S.E.C. when appropriate. In addition, the Division continues to work toward promulgation of a state version of this rule, which would permit in-depth examination and enforcement by the Ohio Division of Securities.

In closing, it is again recommended that securities dealers consult with legal counsel in determining the effect of the new federal rule on their businesses and in developing a compliance strategy. Although a significant amount of record keeping is required, the purpose of the rule is to protect investors from abusive sales practices, and to permit healthy competition in the capital formation markets. These goals should be shared by all who participate in the securities business.

The author is the Attorney Inspector of the Division.

¹ 17 C.F.R. §240.15c2-6.
² Exchange Act Release No. 27160, 1989 Fed. Sec. L. Rep. (CCH) ¶84,440 (August 22, 1989), p. 80,404.

³*Id.*, p. 80,405.

⁴*Id.*, 15 U.S.C. 78c, 78j, 78o, and 78w.

⁵15 U.S.C. 78j; emphasis added.

⁶17 C.F.R. §240.15c2-6(a).

⁷Exchange Act Release No. 27160, 1989 Fed. Sec. L. Rep. (CCH) ¶84,440 (August 22, 1989), p. 80,404.

Register Old Mutual Funds

By Kathleen A. Veach

A recent development has come to the attention of the Division concerning mutual funds and investment companies registered from October 1975 to August 1978. It seems that these companies were allowed to register a definite amount of shares to be sold without specifying an expiration date limitation. The filings made during this time were "good until sold."

However, with the recent implementation of a new records retention schedule of eight years, we now have no record that these funds were ever registered with us. Even though we believe the number of these funds is less than a dozen, we still would like to see these funds voluntarily register at once.

The first problem starts when the public calls in to see if a particular mutual fund is registered with us. Since all of our records prior to 1982 have been destroyed, we have no record of these funds being licensed to sell in Ohio and we could conceivably start an investigation of the fund based on unregistered sales in Ohio.

The second problem results when the funds send in their updated reports, post-effective amendments and name changes of the officers, directors, investments advisors, custodians, distributors, and the name of the fund itself. We have no existing files in which to store the submitted data and have no means to catalog these items.

At this time the Division is asking that these funds come forward and register periodically on the usual registration schedule, voluntarily, so that the Division does not have to go through a lengthy rule-making process in order to bring these funds in line with our current statute.

The author is an Examiner with the Division.

N.A.S.A.A. Guidelines

The Division has adopted for use in reviewing securities registration applications several of the North American Securities Administrators Association, Inc. standards that have been promulgated. From time to time amendments to these standards have been adopted by N.A.S.A.A. It may be helpful to list the current versions of N.A.S.A.A. standards the Division now uses. Sources for their specific content are Commerce

Clearing House Inc.'s *NASAA Reports* service and *Ohio Securities Law & Practice* by Howard M. Friedman, Banks-Baldwin Law Publishing Company.

Statement and Policy Name	Most Recent Amendment and Date Used in Ohio
Oil and Gas Programs	9-14-89
Commodity Pool Programs	1-1-84
Real Estate Programs	9-14-89
Real Estate Investment Trusts	1-1-86
Equipment Programs	4-22-88

Personnel

Richard A. Pautsch, a C.P.A., has joined the Division effective April 1990. A graduate of The Ohio State University's College of Business, having public and corporate accounting experience, his responsibilities will be to direct and conduct the performance of all Division examinations.

Robert B. Holodnak, an attorney, joined the Division's Enforcement Section in April 1990. Bob is a graduate of Capital University College of Law and has been in the private practice of law.

William E. Leber, an attorney, started with the Division in May 1990. He reports directly to the Commissioner. Formerly associated with the Division, Bill has returned with four years of securities law practice as well as arbitration and corporate counsel experience to bring to his new position.

Erwin J. Dugas, Jr. began work in May 1990 as an Examiner in the Enforcement Section of the Division. Erwin is an attorney admitted to practice in New Jersey and has most recently been employed by the New Jersey Bureau of Securities.

Craig N. Campbell, a graduate student at The Ohio State University, joined the Division in May 1990 to work this summer as a college intern.

Outstanding Employee Award

Karen L. Terhune, Assistant Manager of the Enforcement Section, is the Division's Outstanding Employee for the last quarter of calendar year 1989. Recently presented with her well deserved award, Karen's substantial contribution to enforcement activities was acknowledged by the Commissioner. Regular responsibilities include Enforcement Section case management and supervision of several examiners and staff personnel.

Interesting Reading

STOPPING PENNY STOCK FRAUD IN OHIO

Ohio's Division of Securities continues to attempt to stem the surge of penny stock fraud with its day to day activities and occasionally with a specific media emphasis on the problem. At the national level, the North American Securities Administrators Association, Inc. issued a December 1989 *Investor*

Alert of over four pages with a description of the problem and how investors might help themselves in helping to stop the problem.¹ The Commissioner, Mark V. Holderman, recently held a press conference and was interviewed on a cable television program about the Ohio penny stock problem. The following is a December 1989 press release of the Division, the Ohio Department of Commerce and the Commissioner.

INVESTORS WARNED ABOUT PENNY STOCK FRAUD

Nearly half of all complaints received by securities officials in Ohio in the last six months are from investors who are victims of penny stock fraud, according to Mark V. Holderman, Commissioner of Securities in the Ohio Department of Commerce. Penny stocks are unlisted, low-priced stocks that usually trade for \$5 or less.

"Ohio's problems are part of a nationwide epidemic of penny stock fraud," Commissioner Holderman said. "We want to tell investors what to watch for in making investments and how to keep from falling prey to penny stock manipulators."

Since June 1, securities officials have received 241 complaints from investors. Of those complaints, 118 have been about problems with penny stock dealers. Those who have filed complaints in the last six months report losses of more than \$2.3 million, but officials estimate total losses to fraud during the period could be as high as \$100 million.²

"There are many similarities in the complaints," Commissioner Holderman said. "Most of the time, the investors bought the stocks after an unsolicited phone call from a promoter. The promoter usually offers guaranteed returns or inside information, but pressures the investor to make a decision on the spot."

Commissioner Holderman offered a checklist of three items to help investors avoid falling into a penny stock scam:

- Ask for written information including financial statements before sending money. Investigate before you invest.
- Avoid investments offering "guaranteed returns" or based on "inside information."
- Don't be pressured. Hang up on abusive salespeople who insist on a decision immediately.

A recent study of the North American Securities Administrators Association (NASAA) and the Council of Better Business Bureaus (CBBB) found that penny stock swindles are the number one threat of fraud and abuse facing small investors in the United States.

According to the study, Americans lose at least \$2 billion each year as a result of schemes involving low-priced securities. Favorite topics of swindlers are cures for AIDS, the latest in high-tech "Star Wars" technology or some bogus spin on the latest consumer or industrial trend.

"We intend to pursue these con artists, with every enforcement tool available," Commissioner Holderman said, "but the best way to fight penny stock fraud is through educated investors who can say 'no' when the con artist calls."

###

It is hoped national and state-level publicity of the penny stock problem and investor education from hearing about the problem, with constant Enforcement Section efforts here, will curb the abuses as much as may be possible. The following reflect past actions by the Enforcement Section in the penny stock fraud area:

1. *AEI Group, Inc.* Dealer license Suspended 4/17/90 for failure to file audited financial statements with the Division. AEI Group, Inc. failed to obtain a Temporary Restraining Order against the Division from the Franklin County Court of Common Pleas on 4/18/90. An administrative hearing was requested and held 4/23/90. The Hearing Officer recommended that the license of AEI Group, Inc. be Suspended until the required audited financial statements are filed with the Division. The final decision of the agency will be issued after AEI Group, Inc. has an opportunity to file written objections to the report and recommendation of the Hearing Officer.

2. *American Wallstreet Securities, Inc.* Dealer license was Suspended 3/26/90 for allegedly making securities sales to Ohioans, while unlicensed to sell securities in Ohio. An administrative hearing has been requested.

3. *Osborne Stern & Company, Inc.; Douglas W. Osborne.* An Order giving Notice of Opportunity for a Hearing was issued 9/21/89 for the sale of unregistered securities by an unlicensed securities salesperson. A Cease and Desist Order was issued 2/8/90.

4. *AmeriMutual Corporation.*

(a) Dealer license was Suspended 9/18/89. AmeriMutual Corporation is the subject of NASD suspension for failure to comply with formal written requests to submit financial information.

(b) An Order giving Notice of Opportunity for a Hearing was issued 9/19/89 for the sale of unregistered securities. A Cease and Desist Order was issued 1/26/90.

5. *AEI Group, Inc.* A Court Order was obtained 9/8/89 in Franklin County Court of Common Pleas freezing all assets raised by AEI Group, Inc. through sales of securities of LC Meats, Inc. and prohibiting AEI Group, Inc. from selling securities of this company. A Preliminary Injunction was issued against AEI Group, Inc. on 11/17/89, after the Court found the firm had "engaged in deceptive and fraudulent acts." The Court granted the appointment of a receiver on 12/22/89. AEI Group, Inc. appealed the decision on 2/5/90 in the Franklin County Court of Appeals. A hearing on the Permanent Injunction is scheduled to be held in May 1990.

6. *Investors Center, Inc.* Dealer license was Suspended 4/4/89 for failure to remain solvent. Dealer license was Revoked 5/24/89.

7. *Power Securities Corporation.* Dealer license was Suspended 2/21/89 for failure to file financial statements, and inadequate net worth. An administrative hearing was requested and held 9/18/89. Posthearing briefs have been filed.

8. *AEI Group, Inc.* An Order giving Notice of Opportunity for Hearing was issued 1/5/89 for failure to submit interim

audited financials to the Division. AEI Group, Inc. requested a hearing, but it has not yet been held due to discovery requests.

9. *Fitzgerald, DeArman & Roberts*. Dealer license was Suspended 8/5/88 for failure to remain solvent. Dealer license was Revoked 9/15/88.

10. *AEI Group, Inc.* Dealer license was Suspended 7/1/88 for inadequate net worth. AEI Group, Inc. appealed the Suspension Order on 7/13/88, and was granted a Stay of the Suspension Order on 7/14/88, by the Franklin County Court of Common Pleas. The Court dismissed the appeal on 9/25/89. A Writ of Prohibition action filed in the Franklin County Court of Appeals is still pending.

11. *AEI Group, Inc.* A Cease and Desist Order was issued 7/16/87 against AEI Group, Inc. and Meridian Reserve, Inc., after the Division found that salesmen of AEI Group, Inc. sent information pertaining to Meridian Reserve, Inc. to potential investors which contained false representations and omissions of material and relevant fact, including outdated financial information. This Order was appealed by AEI Group, Inc. and Meridian Reserve, Inc. on 7/17/87 in Franklin County Court of Common Pleas. A Stay of the Cease and Desist Order was granted by the Court on 7/21/87. A Procedural Motion was filed by the Division 9/12/87, and a Motion for Finding and Judgment was filed by the appellant 9/30/87. On 9/19/89, the Court ruled in favor of the Division's Motion and against the appellant. Briefs are currently being filed with the Court in this matter.

12. *Blinder, Robinson & Co., Inc.; Meyer Blinder and Larry Blinder, Principals*. An Order giving Notice of Opportunity for a Hearing was issued 4/6/87 Denying the dealer application of Blinder, Robinson & Co. for lack of good business repute. An administrative hearing was requested and held 9/8/87 and 9/9/87. A final Order Denying the dealer application was issued 2/3/88. The Denial Order was appealed in Franklin County Court of Common Pleas on 2/16/88, and on 3/17/89, the Court affirmed the agency's decision. This decision was appealed to the Franklin County Court of Appeals, and on 3/22/90 the lower court's judgment was affirmed. The latest decision was appealed to the Ohio Supreme Court on 4/20/90.

13. *Marshall Davis, Inc.* An Order giving Notice of Opportunity for a Hearing was issued 2/24/87 for the sale of unregistered securities. A Form 39, qualification of securities sold without compliance, was filed and completed, and the Division's Order was terminated 7/29/87.

14. *Warren and Brown Associates, Inc. fka Edward Brown Securities, Inc.* An Order giving Notice of Opportunity for a Hearing was issued 7/29/86 for the unlicensed sales of securities. A Cease and Desist Order was issued 2/9/87.

15. *Wilson-Davis & Company*. An Order giving Notice of Opportunity for a Hearing was issued 5/25/85 for the unlicensed sales of securities. An undertaking was submitted and approved, the Order was terminated 9/20/85.

16. *Johnson-Bowles & Company*. An Order giving Notice of Opportunity for a Hearing was issued 4/23/85 for the unlicensed sales of securities. A Cease and Desist Order was issued 5/24/85.

¹This *Investor Alert* material may be obtained by written request to the Division.

²The Division notes this \$100 million figure is a N.A.S.A.A. U.S.-wide estimate.

Broker-Dealer

LICENSES AS OF THE QUARTER ENDED AT END OF MARCH, RESPECTIVELY, FOR THE YEARS AS FOLLOWS:

	1990	1989
Broker-Dealer	1,558	1,622
Salesman	53,376	55,057

Registration

REGISTRATION FILINGS AS OF THE QUARTERS ENDING, RESPECTIVELY, AS FOLLOWS:

Form Type	Winter Quarter At End of 3-1990	Winter Quarter At End of 3-1989
2(B)	193	224
3-O	3,388	3,354
3-Q	385	450
3-W	29	34
04	0	0
041	0	0
041(B)(4)	0	0
5(A)	0	0
6(A)(1)	55	67
6(A)(2)	21	29
6(A)(3)	10	14
6(A)(3)OG	1	0
6(A)(4)	11	21
09	392	215
09OG	0	0
091	263	467
10	0	0
39	28	61
391/09	6	3
391/091	1	0
391/3-O	205	213
391/3-Q	40	44
391/3-W	2	4
391/6(A)(1)	0	2
391/6(A)(2)	0	0
391/6(A)(3)	0	3
391/6(A)(4)	0	0
TOTAL	5,030	5,205

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.

<u>Respondent</u>	<u>Date Issued</u>	<u>Order No.</u>	<u>Action Taken/ Type of Order</u>
Henry Martin Cool Strongsville, Ohio	12/1/89	89-142	Cease and Desist
William M. Lynk New York Models, Incorporated Akron, Ohio	12/6/89	89-147	Cease and Desist
Hackett Associates, Inc. Wyomissing, Pennsylvania	12/14/89	89-148	Suspension of Dealer's License
Officewood Limited Partnership Westlake, Ohio	12/18/89	89-150	Cease and Desist
William K. Woodruff & Company, Inc. Dallas, Texas	12/28/89	89-151	Revocation of Dealer's License
Westmoreland Capital Corp. Buffalo, New York	12/28/89	89-152	Revocation of Dealer's License
Star Bank, N.A., Butler County Hamilton, Ohio	12/28/89	89-153	Revocation of Dealer's License
Phoenix Securities Group, Inc. New York, New York	12/28/89	89-154	Revocation of Dealer's License
Tin Goose, Inc. Forms 3(Q), File No. 347808 and File No. 360231 Newark, Ohio	1/12/90	90-007	Null and Void
Gaff Manufacturing, Inc. Columbus, Ohio	1/16/90	90-009	Cease and Desist
Matchlock, Ltd. Westlake, Ohio	1/18/90	90-011	Cease and Desist
Medventcap, Limited Partnership Westlake, Ohio	1/18/90	90-012	Cease and Desist
Danny L. Davis, aka Dan Davis Reynoldsburg, Ohio	1/23/90	90-016	Cease and Desist
Amerimutual Corporation Boca Raton, Florida	1/26/90	90-018	Cease and Desist
Osborne Stern & Company, Inc.; Douglas W. Osborne Los Angeles, California	2/8/90	90-022	Cease and Desist
Guidance Resources, Inc.; Consolidated Properties, Ltd.; Daniel J. Mendez Irving, California	2/8/90	90-024	Cease and Desist

FINAL ADMINISTRATIVE ORDERS—continued

<u>Respondent</u>	<u>Date Issued</u>	<u>Order No.</u>	<u>Action Taken/ Type of Order</u>
Meridian Energy Co; Meridian—L & W Well 1—1986 Joint Venture Form 3(Q), File No. 355601 Newark, Ohio	2/12/90	90-026	Null and Void of Partial Filing
Security Pacific Leasing Services Corporation San Francisco, California	2/26/90	90-027	Final Order; Dealer's License not Suspended or Revoked

OTHER RECENT ENFORCEMENT ACTIONS AND DECISIONS

Page, Director, and Holderman, Commissioner v. AEI Group, Inc.

On September 8, 1989, the Division obtained an Order from Franklin County Court of Common Pleas prohibiting AEI Group, Inc. from selling the securities of LC Meats, Inc. and freezing all assets raised by AEI through the sales of such securities.

At the same time, the Division issued an Order suspending the sales of LC Meats' securities by any Broker or Dealer.

On November 17, 1989, the Court issued a preliminary injunction against AEI finding that they had "engaged in deceptive and fraudulent acts" in violation of the Securities Act.

On December 22, 1989, the Court granted the Division's motion for appointment of a receiver to take control of assets AEI acquired through the sale of LC Meats' stock. AEI appealed the appointment of the receiver on February 5, 1990. A hearing on the permanent injunction is scheduled to be held in May 1990.

In The Matter of LC Meats, Inc.

On September 8, 1989, the Division issued an Order suspending the right to buy, sell, or deal in the securities of LC Meats, Inc. The Division preliminarily found that AEI Group, Inc., and the issuer, were disposing of the stock by means of a fraudulent and deceptive practice.

The Suspension Order is currently in effect.

AEI Group, Inc., and Meridian Reserve, Inc., v. Ohio Department of Commerce, Division of Securities

On July 16, 1987, the Division issued a Cease and Desist Order against AEI Group, Inc. and Meridian Reserve, Inc. after an administrative hearing was requested and held. The Division found that salesmen of AEI Group, Inc., an Ohio licensed intrastate broker-dealer, sent information pertaining to Meridian Reserve, Inc. to potential investors which contained false representations and omissions of material and relevant fact, including outdated financial information. AEI Group, Inc. and Meridian Reserve, Inc. appealed the Order in Franklin County Court of Common Pleas on July 17, 1987. An Order to

Stay the Cease and Desist Order was granted by the Court on July 21, 1987.

A Procedural Motion was filed by the Division on September 12, 1987, and a Motion for Finding and Judgment was filed by the appellant on September 30, 1987. On September 19, 1989, the Court ruled in favor of the Division's motion and overruled the appellant's motion. Briefs are now being filed in this matter.

Pohl v. Ohio Department of Commerce, Division of Securities

On January 14, 1988, the Division issued a Cease and Desist Order against William E. Pohl of Cincinnati, Ohio for the sale of unlicensed and unregistered securities, misrepresentations in the sale of securities, and securities fraud. An appeal was filed January 29, 1988, in Franklin County Court of Common Pleas. On October 23, 1989, the Division's Cease and Desist Order was affirmed by the Court.

Gregory L. Scott v. Mark V. Holderman, Commissioner of Securities

On February 25, 1987, the Division revoked the securities salesman license of Gregory L. Scott of Columbus, Ohio, after an administrative hearing was requested and held, for lack of good business repute, based upon a felony conviction. On March 11, 1987, the Division's Order was appealed to the Franklin County Court of Common Pleas, and was affirmed by the Court on September 9, 1988. The ruling was appealed to Franklin County Court of Appeals and the Division prevailed on November 21, 1988. On March 13, 1989, a Motion for Reconsideration was filed in the Court of Appeals, and on December 19, 1989, the case was placed on the accelerated docket.

Keystone National Development Corporation v. Ohio Department of Commerce

On June 2, 1988, the Division issued a Cease and Desist Order against Keystone National Development Corporation of Westerville, Ohio for the sale of unregistered securities, after an administrative hearing was requested and held. In addition, the Division also declared null and void a Form 3(O) filed with the Division on behalf of Keystone. An appeal was filed June 15, 1988 in Franklin County Court of Common Pleas. On February 22, 1990, the Court affirmed the Division's Cease and Desist Order. The decision was appealed to the Franklin County Court of Appeals on April 20, 1990.

CRIMINAL CASES

<u>Case Name</u>	<u>Jurisdiction/ Referring Staff Person</u>	<u>Action Taken</u>	<u>Comments</u>
Naomi M. Taubman	Montgomery County/ Assisted by Karen Terhune	Indicted on 12/7/89 for the following: 1. 34 counts of sales of unregistered securities; and 2. 34 counts of unlicensed sales of securities.	Naomi Taubman, a 63 year old Troy accountant, allegedly sold unregistered promissory notes totalling \$1.9 million to 18 investors, who were her clients, while unlicensed as a securities salesperson. Investors allegedly were promised interest rates as high as 24 percent and tax-free income.
Donald L. Struck	Montgomery County/ Assisted by Karen Terhune	Indicted on 12/21/89 for the following: 1. 8 counts of securities fraud; 2. 8 counts of sales of unregistered securities; 3. 8 counts of grand theft; and 4. 1 count of engaging in a pattern of corrupt activity.	Donald Struck, a former securities salesman for PaineWebber, allegedly sold securities of "Fidelity Partners, Inc." to investors while employed by PaineWebber.
Dale Normand	Guernsey County/ Referred by Mary Spahia	Indicted on 12/22/89 for the following: 1. 8 counts of sales of unregistered securities; and 2. 8 counts of unlicensed sales of securities.	Dale Normand, President of Heritage Securities, Inc., the general partner of Stellex Partners, Ltd., allegedly sold unregistered limited partnership units to Ohio investors, while unlicensed to sell securities.
Charles C. Peebles; Gary L. Trudell	Franklin County/ Referred by Karen Terhune	Sentenced on 12/22/89 to the following: 1. Charles Peebles was sentenced to 8 years imprisonment. The sentence was suspended and probation of 5 years and restitution of \$95,000 was ordered to be paid. 2. Gary Trudell was sentenced to 3 years imprisonment. The sentence was suspended and probation of 5 years and restitution of \$69,500 was ordered to be paid.	Charles Peebles, the former President of American Heritage Research, Inc., pled guilty in November 1989 to 8 counts of securities violations in connection with units sold in a nonexistent fund by a boiler-room operation. Gary Trudell, a former employee of American Heritage Research, Inc., and Heritage Market Research, Inc., pled guilty in October 1989 to one count each of the sale of unregistered securities and theft.
Stephen T. Haley; Kenneth R. Smith; Timothy Vandervort; Sheri A. Strzala	Greene County/ Referred by Mary Spahia	1. Indicted on 12/22/89 as follows: a. Stephen Haley—28 counts; b. Kenneth Smith—44 counts. 2. Indicted on 1/31/90 as follows: a. Stephen Haley—2 securities counts and 1 count of engaging in a pattern of corrupt activity; b. Kenneth Smith—1 count each of the sale of unregistered securities and unlicensed securities; c. Timothy Vandervort—1 count each of the sale of unregistered securities and unlicensed securities; and d. Sheri Strzala—1 count of the sale of unregistered securities.	Stephen Haley, President of Intermark International, Inc. and Global Investment Trading Co., Inc. and Kenneth Smith, owner of Homestead Financial Services, Inc., allegedly sold unregistered securities, while unlicensed to sell securities, to over 500 clients. Timothy Vandervort and Sheri Strzala allegedly aided in selling these securities.

CRIMINAL CASES—continued

<u>Case Name</u>	<u>Jurisdiction/ Referring Staff Person</u>	<u>Action Taken</u>	<u>Comments</u>
Donald H. Coots	Wayne County/ Referred by Karen Terhune	<ol style="list-style-type: none"> 1. Pled guilty on 1/3/90 to the following: <ol style="list-style-type: none"> a. 9 counts of unlicensed sales of securities; and b. 1 count of aggravated theft. 2. Sentenced on 2/9/90 to 18½ years imprisonment and fined \$50,000. 	Donald Coots, an insurance agent, sold bogus securities through his company, Don H. Coots and Associates. Investors were falsely led to believe that certificates issued by Coots were insured by the federal government, phony statements were issued for investments supposedly made with an insurance company and false returns were promised. Coots continued to sell securities in violation of securities laws even after a Cease and Desist Order was issued in 1988, and failed to disclose such Division Order.
Jerry Osborne	Hamilton County/ Assisted by Karen Terhune	<ol style="list-style-type: none"> 1. Pled guilty on 1/9/90 to a Bill of Information of 3 counts of grand theft. 2. Sentenced on 2/12/90 to 4 years imprisonment. 	Jerry Osborne, a former securities salesman for PaineWebber, sold securities of "Fidelity Partners, Inc.," a company he partially owned while employed by PaineWebber.
Robert L. Jones Bernard L. Henry	Stark County/ Referred by Melanie Braithwaite	<p>Sentenced on 1/10/90 to the following:</p> <ol style="list-style-type: none"> 1. Robert Jones and Bernard Henry were sentenced to 18 months incarceration. 2. Their sentences were suspended and probation of 5 years, 700 hours of community service, and restitution was ordered. A prohibition against selling securities was also imposed. 	Robert Jones and Bernard Henry sold unregistered oil and gas working interests in a joint venture, J.H. and Associates 1986-1; N. Camden Well I. Some investors were told at the time of their purchase that their investment would be so successful that they would recoup their investment funds within 3 months to 1 year.
Wilbur Zink	Franklin County/ Referred by Karen Terhune	<ol style="list-style-type: none"> 1. Sentenced on 1/18/90 to 3 years imprisonment. 2. Confinement was suspended, 5 years probation was imposed and restitution of \$5,000 was ordered to be paid. 	Wilbur Zink sold units in a nonexistent fund, the Aggressive Cash Management Fund, while employed by American Heritage Research, Inc., and Heritage Market Research, Inc., both boiler-room operations located in Columbus.
Robert L. Wildman	Hamilton County/ Referred by Mary Spahia	<ol style="list-style-type: none"> 1. Trial held 1/18/90, where Wildman was found guilty of 2 counts each of unregistered sales of securities and unlicensed sales of securities. 2. Sentenced on 2/27/90 to 2 years incarceration. Confinement was suspended, 60 days in the County jail and probation of 3 years was imposed. 	Robert Wildman, dba, Roselawn Coin Centre and Ohio International Coin Co., a partnership, aka, Gold'N Treasures, sold securities, consisting primarily of promissory notes, in which high annual rates of return of up to 30% were promised.
Ronald D. Robbins	Franklin County/ Referred by D. Michael Quinn and Daniel Malkoff	Pled guilty on 2/5/90 to 2 counts of securities fraud.	Ronald Robbins, while a licensed securities salesman, kept investors' checks and converted the funds to his wife's bank account, rather than purchasing the securities for which he received the funds.

CRIMINAL CASES—continued

<u>Case Name</u>	<u>Jurisdiction/ Referring Staff Person</u>	<u>Action Taken</u>	<u>Comments</u>
Michael J. Burke	Franklin County/ Referred by Karen Terhune	Pled guilty on 2/15/90 to the following: 1. 3 counts of false representations in the sale of securities; and 2. 1 count of the sale of unregistered securities.	Michael Burke sold promissory notes to investors for his company, AMM Investments, and promised annual rates of return of 50% - 60%. The securities sales occurred after a Cease and Desist Order was issued against Mr. Burke and a predecessor company, MJB Enterprises, for indistinguishable activities.
Margaret C. Whiteside	Columbiana County/ Referred by Corey Crognale	1. Pled guilty on 2/15/90 to the following: a. 1 count of engaging in a pattern of corrupt activity; b. 1 count of aggravated theft; c. 1 count of securities fraud; and d. 1 count of unlicensed sales of securities. 2. Sentenced on 2/20/90 to the following: a. 18 months on each securities violation; b. 3 years to 15 years for aggravated theft; c. 5 years to 25 years for engaging in a pattern of corrupt activity; and d. Restitution of \$1.4 million dollars. The sentences may run concurrently and may run concurrent with the sentence imposed from the U.S. Northern District Court of Ohio.	Margaret Whiteside allegedly sold approximately \$1.4 million 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. Ms. Whiteside also pleaded guilty to three counts of mail fraud and was sentenced August 29, 1989 in U.S. District Court to 27 months in prison.