

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933

Release No. 9081 / November 4, 2009

SECURITIES EXCHANGE ACT OF 1934

Release No. 60936 / November 4, 2009

INVESTMENT ADVISERS ACT OF 1940

Release No. 2945 / November 4, 2009

INVESTMENT COMPANY ACT OF 1940

Release No. 28989 / November 4, 2009

ADMINISTRATIVE PROCEEDING

File No. 3-13675

In the Matter of

**Value Line, Inc.,
Value Line Securities, Inc.,
Jean Bernhard Buttner, and
David Henigson,**

Respondents.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS, MAKING
FINDINGS, AND IMPOSING REMEDIAL
SANCTIONS AND A CEASE-AND-DESIST
ORDER PURSUANT TO SECTION 8A OF
THE SECURITIES ACT OF 1933,
SECTIONS 15(b)(4), 15(b)(6) AND 21C OF
THE SECURITIES EXCHANGE ACT OF
1934, SECTIONS 203(e), 203(f) AND 203(k)
OF THE INVESTMENT ADVISERS ACT
OF 1940, AND SECTIONS 9(b) AND 9(f) OF
THE INVESTMENT COMPANY ACT OF
1940**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Sections 15(b)(4), 15(b)(6) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) and Sections

9(b) and 9(f) of the Investment Company Act of 1940 (“Investment Company Act”), against Value Line, Inc. (“VLI”), Value Line Securities, Inc. (“VLS”), Jean Bernhard Buttner (“Buttner”) and David Henigson (“Henigson”) (collectively, “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (“Offers”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b)(4), 15(b)(6) and 21C of the Securities Exchange Act of 1934, Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940, and Sections 9(b) and 9(f) of the Investment Company Act of 1940 (“Order”), as set forth below.

III.

On the basis of this Order and Respondents’ Offers, the Commission finds that:

SUMMARY

1. From 1986 to November 2004 (“Relevant Period”), VLI, VLS, Buttner and, from the time he joined VLI in 1988 to November 2004, Henigson engaged in a fraudulent practice that misappropriated assets from the Value Line Family of Mutual Funds (the “Funds”) in the form of inflated brokerage commission payments to VLS, VLI’s affiliated broker-dealer. During the Relevant Period, VLI entered into arrangements with several unaffiliated brokerage firms (“Rebate Brokers”) to execute, clear and settle securities trades on behalf of the Funds at a discounted commission rate that varied during the period from \$.02 per share to as low as \$.01 per share. Instead of passing this discount directly to the Funds, the Respondents arranged for the Rebate Brokers to charge the Funds a commission rate of \$.0488 per share and then to “rebate” to VLS between \$.0288 and \$.0388 per share, which represented between 59% to nearly 80% of the total commissions. VLS, however, did not provide any brokerage services to the Funds for the commissions it received on these trades. In total, VLI directed over \$24 million of the Funds’ assets to its affiliated broker-dealer, VLS, through this so-called “commission recapture” program.

2. The Respondents misled the Independent Directors (“Independent Directors”) of the Funds’ Board of Directors/Trustees (“Board”) and the Funds’ shareholders into believing that VLS provided bona fide brokerage services for the Funds’ securities trades when, in fact, VLS did not provide any such services. Rather, the Rebate Brokers performed the necessary brokerage services, *i.e.*, execution, clearing and settlement, for the Funds’ trades and did so for as little as \$.01 per share. The Respondents also failed to disclose to the Independent Directors and the Funds’ shareholders that they required that a target percentage – as much as 70% of the Funds’

trades in securities listed on the New York Stock Exchange, Inc. (“NYSE”) – be allocated to the recapture program. The target trading percentages served to undermine VLI’s obligation to seek “best execution” for the Funds’ securities trades. The Respondents also made materially false and misleading statements and omissions about VLS and the recapture program to the Independent Directors at Board meetings and to the Funds’ shareholders in public filings with the Commission, including in the Funds’ registration statements.

3. **Buttner**, who became Chairman and CEO of VLI in 1988 and who was the President of VLI when the commission recapture program was instituted by the predecessor CEO, continued to authorize and monitor the commission recapture program through November 2004. Buttner also discussed the program periodically with Henigson, who periodically updated her on the amount of commissions being diverted to VLS. In addition, Buttner and Henigson were both responsible for preparing and making presentations to the Independent Directors about why VLS was receiving commission payments from the Funds, and they also signed certain Commission filings that mischaracterized the reason why VLS was receiving commission payments from the Funds.

RESPONDENTS

4. **VLI**, a New York corporation with its principal place of business in New York, New York, is a publicly traded company whose common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and trades on the NASDAQ Global Select Market. Until June 2008, VLI was a registered investment adviser and advised the Funds, including 14 open-end investment companies, and other individual and institutional clients. In June 2008, VLI reorganized its investment management business by transferring its operations to a newly formed, wholly-owned subsidiary named EULAV Asset Management, LLC (“EULAV”), which replaced VLI as investment adviser to the Funds and other VLI advisory clients. VLI’s most recent Form 10K filing discloses that EULAV has approximately \$2.4 billion in assets under management as of April 30, 2009.

5. **VLS**, a wholly-owned subsidiary of VLI with its principal place of business in New York, New York, is registered with the Commission as a broker-dealer. VLS acts as the underwriter and distributor for the Funds. Until November 2004, VLS also purported to serve as a broker for some of the Funds’ NYSE-listed securities trades. In May 2009, VLS changed its name to EULAV Securities, Inc. (“EULAV Securities”).

6. **Buttner**, age 74, resides in Westport, Connecticut. Buttner is Chairman, Chief Executive Officer and President of VLI. She was also Chairman and President of VLS, and served in those positions until February 2009. Buttner effectively controls approximately 86.5% of the outstanding voting stock of VLI. From 1988 to June 2008, Buttner was Chairman of the Funds’ Board and President of the Funds. In June 2008, she resigned from all of her positions with the Funds.

7. **Henigson**, age 52, resides in Riverside, Connecticut. Henigson held various positions at VLI since joining VLI in 1988, including at various times serving as a Director, Vice-President, Treasurer and/or Chief Compliance Officer of VLI, and as a Director and Vice-

President of VLS. He also held various positions at the Funds, including at various times serving as Vice President, Secretary, Treasurer and/or Chief Compliance Officer for the Funds. In February 2009, he ceased serving in any capacity with VLS and in June 2008 he resigned as VLI's Chief Compliance Officer and also resigned from all of his positions with the Funds.

FACTS

The Commission Recapture Program

8. From 1986 to November 2004, while VLI was serving as investment adviser to the Funds, the Respondents engaged in a practice to direct a portion of the Funds' securities trades to VLI's commission recapture program. For the securities trades subject to the recapture program, VLI's Trading Department ("Trading Department") sent the trades to one of three Rebate Brokers that the Respondents had recruited to fully execute, clear and settle securities trades on behalf of the Funds at a discounted commission rate as low as \$.01 per share. Although the Rebate Brokers charged at the outset \$.02 per share for their services, which rate was reduced over time to as little as \$.01 per share for their services, the Respondents instructed the Rebate Brokers to bill the Funds \$.0488 per share and then to pay the balance – from \$.0288 to \$.0388 – of that commission charge to VLS. In total, VLI directed over \$24 million of the Funds' assets to VLS. This commission recapture practice was not fully disclosed to the Independent Directors or to the Funds' shareholders.

9. Although VLS received as much as 59% to nearly 80% of the total commissions charged on the securities trades that were allocated to the recapture program, VLS did not perform any brokerage services for the Funds in connection with those trades. VLS did not have the capacity to execute, clear and settle trades on its own. It, therefore, relied on the Rebate Brokers to access the markets and effect the trading process for the Funds' securities trades. In fact, VLS did not provide any trading services beyond the services that the Trading Department was already contractually obligated to provide the Funds under the terms of VLI's investment advisory agreements with the Funds. Having no independent brokerage operations of its own, VLS consisted of the same traders, trading facilities and offices as the Trading Department. The traders staffed to the Trading Department were told by management that they wore "two hats" – a VLI hat and a VLS hat. In practice, however, the VLI traders handled all of the Funds' securities trades in the same manner whether the trades were routed for execution to the Rebate Brokers or to other unaffiliated brokers.

10. Upon becoming CEO, Buttner was responsible for the commission rates charged by VLS. Buttner approached the negotiations with the Rebate Brokers with the goal of maximizing profits for VLS, not for the Funds. Buttner pursued fee concessions from the Rebate Brokers that ultimately resulted in agreements with the Rebate Brokers to execute, clear and settle the Funds' securities trades for only \$.01 per share. This \$.01 rate was significantly lower than the commission rates charged by other brokers for executing VLI trades because the Rebate Brokers did not provide other services in connection with the trades, such as "soft-dollars" services. Buttner, however, did not pass this discount to the Funds. Rather, she and the other Respondents referred to VLS as an "introducing broker" and collected from \$.0288 to \$.0388 per share for VLS on the Funds' securities trades that the Trading Department sent to the Rebate Brokers for

execution, clearing and settlement. This practice allowed VLS and VLI to reap the benefit of the Rebate Brokers' discounted rates at the Funds' expense.

11. Buttner and Henigson were involved in negotiating and structuring the commission recapture arrangements with the various Rebate Brokers. Over the years, they signed written agreements with the Rebate Brokers formalizing the terms of the recapture arrangements, including the "commissions split" between VLS and the Rebate Brokers. In addition, Henigson supervised the head traders working in the Trading Department and, in turn, reported to Buttner on the profitability of the recapture program for VLS and he also assisted in the preparation of reports for the Independent Directors as to the profitability of VLS.

Target Trading Percentages For Recapture Trades

12. Buttner was also responsible for requiring that a target percentage of the Funds' securities trades be allocated to the recapture program. The target percentage, which applied only to the Funds' trades in NYSE-listed securities, was initially set at approximately 50% but increased over time to as much as 70%. The purpose of the target percentages was to ensure a certain amount of revenue for VLS each quarter. Henigson relayed Buttner's target percentages to VLI's head traders and, at times, instructed them to increase the number of the Funds' securities trades being allocated to the Rebate Brokers in order to meet Buttner's target percentages. As a result, rather than selecting brokers based solely on their ability to provide best execution for the Funds' trades, the VLI traders were instructed to send securities trades to the Rebate Brokers to meet management's target trading percentages.

Misleading Disclosures To The Funds' Independent Directors

13. The Respondents misled the Independent Directors about why VLS was receiving commission payments in connection with the Funds' securities trades. The Respondents told the Independent Directors that using VLS as a broker for the Funds' securities trades was in the best interests of the Funds and their shareholders. Buttner and Henigson, in particular, told the Independent Directors at quarterly Board meetings that the "use" of VLS for the Funds' securities trades served the Funds' best interests because VLS was charging the Funds a commission rate of \$.0488 per share, while other brokerage firms were charging an average commission rate of \$.05 per share for the same services. The Respondents, however, failed to disclose to the Independent Directors that the Rebate Brokers were actually providing all of the brokerage services in connection with the Funds' securities trades for as little as \$.02 to \$.01 per share. Buttner and Henigson also failed to disclose to the Independent Directors that they had instructed the Rebate Brokers to charge the Funds \$.0488 per share and to then send the balance -- \$.0288 to \$.0388 -- of this commission charge back to VLS, even though VLS did not provide any brokerage services on the trades.

14. The Respondents also failed to disclose to the Independent Directors the existence of Buttner's target trading percentages requiring that a fixed percentage of the Funds' NYSE-listed securities trades be allocated to VLS and the recapture program. Rather, the Respondents told the Independent Directors that VLI's decision to use VLS as a broker for the Funds' securities trades was being made consistent with VLI's obligation to seek best execution. Unaware of the target

trading percentages, the Independent Directors continued to authorize commission payments to VLS under the belief that VLI was meeting its obligation to seek best execution for the Funds' securities trades.

Misleading Disclosures To The Funds' Shareholders

15. The Respondents made similarly misleading statements about why VLS was receiving commissions to the Funds' shareholders in public filings with the Commission. These misrepresentations were made in VLI's investment advisory registration statements ("Forms ADV") and in the Funds' registration statements, which included the Funds' Prospectuses and Statements of Additional Information. Buttner and Henigson signed the Funds' registration statements in their capacities as officers of the Funds. The Forms ADV and the Funds' registration statements were provided to, or were otherwise made available to, the Funds' shareholders.

16. The Forms ADV and the Funds' registration statements mischaracterized the reason why VLS was receiving commission payments from the Funds. These documents falsely represented that VLS provided brokerage services for the Funds' securities trades and that the trades were "cleared" through unaffiliated broker-dealers. These representations were false because VLS did not provide any brokerage services in connection with the Funds' securities trades, and the unaffiliated broker-dealers did more than just "clear" the trades. The Rebate Brokers, in fact, executed, cleared and settled the trades. Furthermore, the Forms ADV and the Funds' registration statements did not disclose the fact that the VLI's traders were under orders from senior management to meet target trading percentages for allocating the Funds' NYSE-listed securities trades to the recapture program so that VLS could generate revenue on those trades. The Forms ADV and the Funds' registration statements purported to list all of the factors the Trading Department considered when selecting brokers to execute the Funds' securities trades, such as price, broker execution capability, commission rates and the value of research provided by the broker, but did not disclose the target trading percentages.

VIOLATIONS

17. As a result of the conduct described above,
- (a) VLI, VLS, Buttner and Henigson willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder;
 - (b) VLI willfully violated Sections 206(1) and 206(2) of the Advisers Act, and VLS, Buttner and Henigson willfully aided and abetted and caused VLI's violations of Sections 206(1) and 206(2) of the Advisers Act;
 - (c) VLI willfully violated Section 207 of the Advisers Act; and

- (d) VLI willfully violated Section 15(c) of the Investment Company Act; VLI and VLS willfully violated Section 17(e)(1) of the Investment Company Act; and VLI, Buttner and Henigson willfully violated Section 34(b) of the Investment Company Act.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in the Respondents' Offers.

Accordingly, pursuant to Section 8A of the Securities Act, Sections 15(b)(4), 15(b)(6) and 21C of the Exchange Act, Sections 203(e), 203(f) and 203(k) of the Advisers Act, and Sections 9(b) and 9(f) of the Investment Company Act, it is hereby ORDERED that:

A. VLI shall cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, Sections 206(1), 206(2) and 207 of the Advisers Act, and Sections 34(b), 15(c) and 17(e)(1) of the Investment Company Act.

B. VLS shall cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Section 17(e)(1) of the Investment Company Act, and from causing any violations and any future violations of Sections 206(1) and 206(2) of the Advisers Act.

C. Buttner and Henigson shall cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Section 34(b) of the Investment Company Act, and from causing any violations and any future violations of Sections 206(1) and 206(2) of the Advisers Act.

D. VLI, VLS, Buttner and Henigson are censured.

E. VLI shall pay disgorgement in the amount of \$24,168,979, plus prejudgment interest of \$9,536,786.

F. VLI shall pay a civil money penalty in the amount of \$10,000,000; Buttner shall pay a civil money penalty in the amount of \$1,000,000 and Henigson shall pay a civil money penalty in the amount of \$250,000.

G. Payments to be made by VLI and Buttner under Paragraphs IV.E. and F., above, shall be made within 10 days of the entry of the Order. Payments to be made by Henigson under Paragraph IV.F., above, shall be made in the following manner: (1) within 10 days of the entry of the Order Henigson shall pay \$100,000, (2) within 60 days of the entry of the Order Henigson shall pay \$75,000, and (3) within 90 days of the entry of the Order Henigson shall pay the remaining \$75,000. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600 or 31 U.S.C. 3717. Payments shall be: (1) made by United States postal money

order, certified check, bank cashier's check or bank money order; (2) made payable to the Securities and Exchange Commission; (3) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (4) submitted under cover letter that identifies the payee as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Brenda Chang, Senior Attorney, Securities and Exchange Commission, Division of Enforcement, New York Regional Office, 3 World Financial Center, Suite 400, New York, NY 10281.

H. There shall be a Fair Fund created for VLI's disgorgement, interest and penalties referenced in Paragraphs IV.E. and F., above, pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002. VLI shall bear all costs associated with any Fair Fund distribution, including but not limited to retaining a Third-Party Consultant approved by the Commission staff to administer any Fair Fund distribution. Regardless of whether any such Fair Fund distribution is made, amounts ordered to be paid as civil money penalties pursuant to the Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, VLI, Buttner and Henigson agree that they shall not, after offset or reduction in any Related Investor Action based on VLI's payment of disgorgement in this action, argue that they are entitled to, nor shall they further benefit by, offset or reduction of any part of their payment of civil penalties in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, VLI, Buttner and Henigson agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against any of the Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

I. Buttner and Henigson be, and hereby are, prohibited from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act or that is required to file reports pursuant to Section 15(d) of the Exchange Act.

J. Buttner be, and hereby is, barred from association with any broker, dealer, or investment adviser, and is prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter (collectively, "Associational Persons"), provided however, that Buttner may, for a period of one year from the entry of this Order, (i) serve as an officer or director and hold and exercise a controlling interest in any parent company of VLI that is not affiliated with any Associational Person other than through VLI and that does not have a class of securities registered pursuant to Section 12 of the Exchange Act and that is not required to file reports pursuant to Section 15(d) of the Exchange Act; (ii) continue to hold and exercise control over VLI through her beneficial ownership of VLI voting stock so long as she does not (A) attempt to influence or exercise voting control of her VLI shares concerning the operations of EULAV and

EULAV Securities so long as EULAV is an investment adviser and so long as EULAV Securities is a broker or dealer; or (B) communicate directly or indirectly with any EULAV or EULAV Securities employee concerning the operations of EULAV and EULAV Securities so long as EULAV is an investment adviser and so long as EULAV Securities is a broker or dealer, in each case except as necessary in connection with the activities contemplated by clause (iii) below; and (iii) perform tasks or functions relating to EULAV or EULAV Securities solely to the extent necessary to effectuate one or more transactions, the ultimate result of which is to terminate Buttner's affiliated person status with respect to EULAV and EULAV Securities and/or EULAV's status as an investment adviser and EULAV Securities' status as a broker or dealer and/or for VLI to cease to have a class of securities registered pursuant to Section 12 of the Exchange Act and not to be required to file reports pursuant to Section 15(d) of the Exchange Act. For the avoidance of doubt, at such time as Buttner terminates her affiliated person status with respect to EULAV and EULAV Securities, the proviso to the preceding sentence beginning with the words "provided however" shall cease to be operative. Buttner shall provide a copy of the Order to VLI's Board of Directors and notify them of the limitations placed on her participation in VLI's corporate functions.

K. Henigson be, and hereby is, barred from association with any broker, dealer, or investment adviser, and is prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter.

L. Any reapplication for association by Buttner or Henigson will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against Buttner and Henigson, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

By the Commission.

Elizabeth M. Murphy
Secretary