SECURITIES ACT OF 1933
Release No. 7031 / November 8, 1993

SECURITIES EXCHANGE ACT OF 1934
Release No. 33165 / November 8, 1993

INVESTMENT COMPANY ACT OF 1940
Release No. 19840 / November 8, 1993

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 504 / November 8, 1993

ADMINISTRATIVE PROCEEDING
File No. 3-8224

In the Matter of	)	ORDER INSTITUTING PUBLIC ADMINISTRATIVE PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTIONS 9(b) AND 9(f) OF THE INVESTMENT COMPANY ACT OF 1940 AND MAKING FINDINGS AND ISSUING A CEASE AND DESIST ORDER
WILLIAM P. HARTL	)	
and	)	
ERIC P. LIPMAN	)	

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest to institute public administrative proceedings pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), Section 21C of the Securities Exchange Act of 1934 ("Exchange Act") and Sections 9(b) and 9(f) of the Investment Company Act of 1940 ("Investment Company Act") against William P. Hartl ("Hartl") and Eric P. Lipman ("Lipman"). In anticipation of the institution of these proceedings, both Lipman and Hartl have submitted an Offer of Settlement (collectively the "Offers") which Offers 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 in which the Commission is a party,

without admitting or denying the findings contained herein, Lipman and Hartl each consent to the issuance of this Order Instituting Public Administrative Proceedings Pursuant to Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934 and Sections 9(b) and 9(f) of the Investment Company Act and Findings and Order of the Commission ("Order").

Accordingly, IT IS ORDERED that administrative proceedings pursuant to Section 8A of the Securities Act, Section 21C of the Exchange Act and Sections 9(b) and 9(f) of the Investment Company Act be, and hereby are, instituted.

II.

On the basis of this Order and the Respondents' respective Offers of Settlement, the Commission makes the following findings. 1/

A. RESPONDENTS

William P. Hartl, 56 years old, is a New York City resident and served as director of Corporate Capital Resources, Inc. from July 1981 until he resigned in 1990.

Eric P. Lipman, 41 years old, is a Roslyn Heights, New York resident. He has been a Director of CCRS since January 1988. In February of 1990, Lipman also became a Vice-President of CCRS.

B. OTHER PERSON AND ENTITY INVOLVED

Corporate Capital Resources, Inc. ("CCRS") was incorporated in Delaware in 1969 and has its principal place of business in Westlake Village, California. CCRS is registered as a Business Development Company ("BDC") under the Investment Company Act; its securities are registered with the Commission pursuant to Section 12(g) of the Exchange Act.

Daniel D. Weston ("Weston"), 68 years old, resides in Westlake Village, California. From the Company's inception in 1969 through December 1990, Weston served as Chairman of the Board of Directors and President of CCRS.

C. BACKGROUND

As a BDC, CCRS is required to register its securities pursuant to Section 12, and make periodic filings pursuant to Section 13 of the Exchange Act. In its periodic filings, CCRS is required to list and value its securities holdings pursuant to

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1/ Any findings contained herein are solely for the purpose of these proceedings and are not binding on any person or entity named as a respondent in any other proceedings.

methods set out in Section 2(a)(41)(B) of the Investment Company Act and Rule 2a-4 thereunder. Section 2(a)(41)(B)(ii) requires CCRS' Board to determine the "fair value" of CCRS' restricted holdings based on a "good faith" assessment.

For each of its accounting periods ended September 30, 1988, through March 31, 1990 ("the relevant period"), CCRS issued false and misleading financial statements that materially overstated the value of its holdings in various portfolio companies ("investee companies"). Each overvaluation was material to CCRS' financial statements. They resulted in overstatements of net asset value ranging from 7% to 92%. These materially false and misleading financial statements were contained in the Company's periodic filings with the Commission and were used to sell securities to the public.

During the relevant period, Hartl and Lipman served as directors of CCRS and were two of the individuals responsible for setting the valuations of the investee companies. The following describes their conduct and the resulting violations of the federal securities laws.

D. CCRS' FALSE AND MISLEADING ASSET VALUATIONS

In at least fourteen instances CCRS improperly claimed ownership in investee companies and/or improperly valued these assets.

1. Improper Claims of Ownership

In four of the fourteen instances, CCRS did not even own the investee company shares listed as assets. Nor could it claim a right of ownership. In these cases there was no acquisition agreement between the parties, no consideration had passed from CCRS to the investee company and no shares in the investee company had been transferred to CCRS.

In an additional two of the fourteen instances, there were signed acquisition contracts. However, CCRS had breached its obligations under the contracts. Therefore, in these two instances also, CCRS had no legally enforceable claim of ownership of the subject shares.

In another four of the fourteen instances, there was a signed acquisition contract. However, CCRS could not claim ownership rights under those contracts because, as of the close of the accounting period, the contracts were executory. Inclusion of these shares as "holdings" by CCRS was improper under Generally Accepted Accounting Principles.

2. Improper Valuation Methods

Regardless of whether CCRS' claim of ownership in its

various holdings was supportable, CCRS' valuation "methods" were improper under the applicable accounting literature and the requirements of the Investment Company Act. CCRS did not value its shares at what it could realistically expect to realize upon their current sale. 2/ Instead, CCRS used retail indications of interest appearing in the National Quotation Bureau pink sheets as "market quotes," multiplying them times the number of shares purportedly held and applying a haircut.

The resulting valuations were flawed. First, the pink sheet indications of interest were not firm as to any quantity, let alone the millions of shares owned by CCRS. Second, the method wholly ignored the underlying financial condition and business prospects of the investee companies. Most were unprofitable and/or insolvent. CCRS' valuation implied that these companies had total market values running into the millions of dollars.

The valuations were suspect for another reason. On numerous occasions CCRS "acquired" a holding and days later claimed it had a value several times the cost.

For example, on June 30, 1989, CCRS "acquired" a 48.2% ownership of AquaSciences International for a $600,000 promissory note. On that same day CCRS claimed the holding was worth $3,500,000.

On September 6, 1988, CCRS "acquired" a 90% interest in Nite & Day Power Technologies in exchange for a $220,000 promissory note. As of September 30, 1988, CCRS claimed the holding was worth $4,404,500.

On September 29, 1989, CCRS agreed to pay $100,000 for 26% of Touchfon International. As of September 30, 1989, CCRS claimed the holding was worth $1,252,617.

On December 12, 1988, CCRS "acquired" shares of Syntellisys Network, Inc. at a stated cost of $812,500. As of December 31, 1988 CCRS claimed the shares were worth $3,500,000.

E. CCRS' FALSE AND MISLEADING NARRATIVE DISCLOSURE REGARDING THE VALUATION PROCESS

1. CCRS' Stated Valuation Policy

CCRS' periodic filings were also false and misleading with

2/ See Financial Reporting Codification, § 404.04a, The Problem of Valuation, Fed. Sec. L. Rep. (CCH) ¶ 38,221 Accounting Series Release ("ASR") No 113 which states: "As a general principle, the current fair value of restricted securities is the amount which the owner might reasonably expect to receive for them upon their current sale."

respect to the narrative description of the valuation process. CCRS' "Portfolio Evaluation Policy" ("Valuation Policy") was adopted by the Company's Board of Directors and was contained in all of CCRS' filings with the Commission during the relevant period. CCRS' Valuation Policy called for the Company's Board of Directors to periodically value the Company's portfolio but noted that, in making its determinations, the Board could act on recommendations submitted by its Valuation Committee.

With regard to restricted securities, the Valuation Policy stated that valuations will be set "in such manner as reflects their fair value in the opinion of the Board of Directors acting in good faith." Specific factors for determining fair value were listed as:

> ... the type of security, financial statements, cost at date of purchase, size of holding, discount from market value of unrestricted securities of the same class, special reports prepared by analysts, information as to any transactions or offers with respect to the security, existence of merger proposals or tender offers affecting the securities, price and extent of public trading in similar securities of the issuer or comparable companies and other relevant matters. 3/

The Valuation Policy also stated that, with regard to restricted securities,

> ... the Board will consider various factors including the proportion of the issuer's securities which are held by [CCRS] and the ability of [CCRS] to dispose of large blocks of securities in an orderly manner, existence and terms of registration rights, the market price of unrestricted securities of the same class, existence of any contractual restrictions and other factors which would affect fair value of the securities.

CCRS failed to follow its stated Valuation Policy.

3/ The Valuation Policy was simply a recitation of what was required under the applicable accounting literature and law, borrowing verbatim from various Commission releases on the subject, including ASR Nos. 113 and 118.

2. CCRS' Actual Valuation Process

a. The Role of the Valuation Committee.

Weston controlled the valuation of CCRS' portfolio companies. During the relevant period, Weston served as a Valuation Committee member as well as Chairman of the Board of Directors and CCRS' President. Acting alone, Weston drafted and interpreted CCRS' Valuation Policy.

On a quarterly basis, Weston would prepare an individual "Investee Company Valuation Review" ("Valuation Sheet") for each investee company. The Valuation Sheets indicated the number of shares CCRS owned, acquisition date, cost of acquisition, the purported "market quote" as of the last day of the quarter, stated fair value and the stated method used in arriving at the stated fair value. In theory, the Valuation Sheets were to be discussed at meetings of the Valuation Committee. 4/

There was little discussion, however, among the Valuation Committee members regarding CCRS' valuations of investee company securities. The Valuation Committee did not hold any regular meetings or conduct any independent research to determine if the valuations Weston assigned to the holdings in individual investee companies were in fact fair and reasonable. They did not review any documents such as contracts, pricing information or financial statements of the investee companies.

With only one exception, the Valuation Committee routinely approved the Valuation Sheets prepared by Weston. These were then sent to each individual member of the Board of Directors for approval.

b. The Role of the Respondents

Although, CCRS' stated policy allowed the directors to delegate to the Valuation Committee the primary work of forming valuation recommendations, it did not absolve the Board of Directors from all involvement in the valuation process. Each director was still required to in "good faith", consider and vote upon the "fair value" assigned to CCRS' restricted holdings.

In practice, however, Hartl and Lipman abdicated their responsibility to act in "good faith" in valuing CCRS' portfolio. Hartl and Lipman had no knowledge of how the Valuation Committee valued CCRS' portfolio and no role in the valuation of CCRS' portfolio other than to approve the Valuation Committee's recommendation. Hartl and Lipman did not even know what method was used in valuing investee companies in CCRS' portfolio. They

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4/ Hartl and Lipman were not members of the Valuation Committee.

did not review, nor did they ask to review, contracts, pricing information, stock certificates, or financial statements of the underlying investee companies.

3. CCRS' Sales of Securities

On July 15, 1985, the Company filed a Form N-2 registration statement with the Commission. It became effective as of December 31, 1986. The Form N-2 was subsequently amended on several occasions, the latest occurring on March 15, 1989. This latest amendment contained CCRS' false and misleading financial statements for the fiscal year ended September 30, 1988.

F. AIDING AND ABETTING OF VIOLATIONS BY THE RESPONDENTS

Hartl and Lipman knew that the narrative disclosure contained in CCRS' periodic filings was false and misleading. They knew that, in practice, Weston had sole control over the valuation of CCRS' portfolio. This is clearly inconsistent with the disclosure in CCRS' periodic reports.

Hartl and Lipman knew that the Board of Directors did not consider the criteria set forth in the filings in establishing fair value of the investee companies. 5/ They knew that they conducted no valuation inquiry whatsoever. They knew that they blindly relied on the valuations submitted by the Valuation Committee and in fact never dissented from a valuation supplied by this committee. They knew that the Valuation Sheets contained essentially only the number of shares owned, the acquisition date and the cost. They knew they were not reviewing the financial statements of the portfolio companies. They knew they were not examining "the proportion of the issuer's securities which are held by [CCRS] and the ability of [CCRS] to dispose of large blocks of securities in an orderly manner." They knew that there was no inquiry as to "the price and extent of public trading in similar securities of the issuer or comparable companies." They never asked for or reviewed "special reports prepared by analysts" or "information as to any transactions or offers with respect to the security." They knew, in fact, that they did not even meet to discuss the valuations prepared by Weston.

Even with the limited information contained in the Valuation Sheets it was clear that CCRS was acquiring holdings on one date and then valuing them at substantial multiples days later. Further, had Hartl or Lipman inquired about the valuation

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5/ These misrepresentations were material in that they spoke to the supposed integrity and thoroughness of the valuation process. The periodic reports and the registration statement held the valuation process out to CCRS' shareholders as a detailed consideration conducted by a group of fiduciaries executing their responsibilities.

procedures employed for just one investee company, he would have learned that CCRS was claiming to value securities it did not even own.

Hartl and Lipman substantially assisted the fraud by approving the quarterly valuations and by signing the reports on Form 10-K submitted by CCRS to the Commission and by signing the registration statement and/or the post-effective amendments used to sell CCRS' shares to the public.

In view of the above, the Commission finds that Hartl and Lipman have each willfully aided and abetted CCRS' violations of Section 17(a) of the Securities Act, Sections 10(b) and 13(a) of the Exchange Act, Rules 10b-5, 12b-20, 13a-1 and 13a-13 thereunder, and Section 34(b) of the Investment Company Act. 6/

In view of the above, the Commission finds that Hartl and Lipman were each a cause of CCRS' violations of Section 17(a) of the Securities Act, Sections 10(b) and 13(a) of the Exchange Act, Rules 10b-5, 12b-20, 13a-1 and 13a-13 thereunder, and Section 34(b) of the Investment Company Act.

III.

On the basis of the foregoing, it is appropriate and in the public interest to impose the sanctions which are set forth in the Offers submitted by Lipman and Hartl.

Accordingly, IT IS HEREBY ORDERED, that:

1. effectively immediately, William P. Hartl be, and hereby is, barred from association with any broker, dealer, municipal securities dealer, investment adviser or investment company;

2. William P. Hartl permanently cease and desist from committing or causing any violation of, and from committing or causing any future violation of, Section 17(a) of the Securities Act, Sections 10(b) and 13(a) of the Exchange Act, Rules 10b-5, 12b-20, 13a-1 and 13a-13 thereunder, and Section 34(b) of the Investment Company Act;

3. effectively immediately, Eric P. Lipman be, and hereby is, barred from association with any broker, dealer, municipal securities dealer, investment adviser or

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6/ "Willfully" as used in this Order means intentionally committing the act which constitutes the violation. There is no requirement that the actor also be aware that he is violating one of the rules or acts. See, Tager v. Securities and Exchange Commission, 344 F.2d 5 (2d Cir. 1985).

investment company; and

4. Eric P. Lipman permanently cease and desist from committing or causing any violation of, and from committing or causing any future violation of, Section 17(a) of the Securities Act, Sections 10(b) and 13(a) of the Exchange Act, Rules 10b-5, 12b-20, 13a-1 and 13a-13 thereunder, and Section 34(b) of the Investment Company Act.

By the Commission.

Jonathan G. Katz
Secretary

SECURITIES EXCHANGE ACT OF 1934
Release No. 33159 / November 5, 1993

ADMINISTRATIVE PROCEEDING
File No. 3-8221

In the Matter of
JOHN E. ARNOLD
Respondent.

ORDER INSTITUTING PUBLIC PROCEEDINGS, MAKING FINDINGS AND IMPOSING REMEDIAL SANCTIONS

I.

The Commission deems it appropriate and in the public interest that public proceedings be instituted pursuant to Sections 15(b) and 19(h) of the Securities Exchange Act of 1934 (Exchange Act) against John E. Arnold (Arnold). In anticipation of these proceedings, Arnold has submitted an Offer of Settlement which the Commission has determined to accept. Solely for the purpose of this proceeding and any other proceeding brought by or on behalf of the Commission, or to which the Commission is a party, Arnold, by his Offer of Settlement, without admitting or denying the Commission's findings, except for the findings contained in paragraphs III. 5 and 6. below, which are admitted, consents to the entry of this Order Instituting Public Proceedings, Making Findings and Imposing Remedial Sanctions (Order).

II.

Accordingly, IT IS ORDERED that proceedings pursuant to Sections 15(b) and 19(h) of the Exchange Act be, and they hereby are, instituted.