

sec news digest

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ENFORCEMENT PROCEEDINGS

ADMINISTRATIVE PROCEEDINGS SETTLED AGAINST CHUBB SECURITIES CORPORATION

The Commission has settled public administrative and cease and desist proceedings entered on May 11, 1995, pursuant to the Investment Advisers Act of 1940 (Advisers Act), against Chubb Securities Corporation, a registered investment adviser and broker dealer, located in Concord, New Hampshire.

The Order Making Findings and Imposing A Cease and Desist Order and Remedial Sanctions (Order) found that from approximately mid-1991 through approximately July 1993, Chubb violated Section 206(4) of the Advisers Act and Rule 206(4)-1(a)(1), thereunder, in that its San Juan, Puerto Rico branch office, through Luis Corujo, the branch manager, used testimonials in newspaper advertisements for a financial seminar marketed throughout Puerto Rico.

The Order further found that the advertisements usually included: (i) the picture of a person who had apparently attended a prior seminar; (ii) that attendee's signature; (iii) a quote from that attendee describing how the seminar benefitted him/her or changed his/her life; and (iv) statements from the pictured attendee claiming that the seminar allowed him/her to realize his/her financial goals and urging the reader to attend the seminar.

Pursuant to its Offer of Settlement, Chubb consented to a censure, a cease and desist order, a \$10,000 administrative penalty, and an undertaking. (Rel. IA-1512)

PUBLIC ADMINISTRATIVE PROCEEDINGS INSTITUTED AGAINST MILTON PURYEAR

The Commission instituted public administrative proceedings against Milton Puryear, a registered investment adviser, pursuant to Sections 203(e) and 203(f) of the Investment Advisers Act of 1940.

The Order Instituting Proceedings alleges that, on April 20, 1993, the Commission filed a complaint against Puryear in the United States District Court for the Southern District of New York. The complaint and the Order both allege, among other things, that Puryear sold \$1.5 million worth of unregistered securities to over 400 investors and committed fraud in connection with those sales. The Order also alleges that, on March 30, 1994, the Honorable John S. Martin, Jr., United States District Court Judge for the Southern District of New York, found that Puryear willfully violated Section 5(a) of the Securities Act of 1933 (Securities Act) and the antifraud provisions of the federal securities laws. The Order further alleges that, on June 10, 1994, Judge Martin entered a Final Judgment of Permanent Injunction as to Puryear, permanently enjoining Puryear from future violations of Sections 5(a), 5(b) and 17(a) of the Securities Act and Section 10(b) of the Securities Exchange Act of 1934 and Rules 10b-5 and 10b-9 thereunder.

A hearing will be scheduled to determine what remedial action, if any, is appropriate against Puryear based on the aforementioned willful violations and injunction. (Rel. IA-1514)

FRANKLIN WOLF BARRED

The Commission has entered an order barring Franklin N. Wolf, the President and control person of F.N. Wolf & Co., from associating with regulated entities, ordering that Wolf cease and desist from future securities law violations, and imposing upon Wolf a \$125,000 civil penalty and other sanctions. Wolf consented to entry of the Order Making Findings and Imposing Remedial Sanctions without admitting or denying the Commission's findings. In the Order, the Commission found that Wolf fraudulently manipulated the price of securities of Of Counsel Enterprises, Inc. The Order further finds that between November 16, 1993, when Of Counsel's IPO became effective, and December 8, 1993, Wolf & Co. and others purchased approximately 95.7% of the public float of Of Counsel's units, and manipulated their price from \$3.25 to \$8. Wolf & Co. subsequently sold the vast majority of its Of Counsel securities and profited by approximately \$2.5 million. The Order also finds that Wolf & Co., aided and abetted by Wolf, failed to file Schedules 13D and Forms 3, 4 and 5 reflecting its Of Counsel holdings. (Rels. 33-7199; 34-36035)

CEASE AND DESIST ORDER ISSUED AGAINST JOSEPH LEGROTTE

The Commission announced today an Order Instituting Proceedings, Making Findings and Imposing a Cease and Desist Order (Order) against Joseph LeGrotte (LeGrotte). LeGrotte consented to the entry of the Order without admitting or denying the Commission's findings. The Order found that LeGrotte caused violations of the antifraud provisions of the federal securities and ordered him to cease and desist from committing or causing any violation, and committing or causing any future violation, of such provisions.

The Order makes findings that from 1984 through 1989, First Humanics Corp. (First Humanics), a not-for-profit corporation acquired 21 nursing homes through 21 public offerings of municipal bonds raising over \$80 million. In connection with one such offering, LeGrotte as an officer and director of First Humanics, caused misrepresentations and omissions of material fact concerning: the promoter of the offerings, the promoter's control over the not-for-profit corporation as well as his regulatory history and numerous prior bond and business failures; the prevalent commingling of revenues from earlier First Humanics nursing home acquisitions and the resulting financial interdependence of all First Humanics nursing homes; and First Humanics on-going Ponzi scheme. (Rels. 33-7200; 34-36036)

CEASE AND DESIST ORDER ISSUED AGAINST SIDNEY GOULD

The Commission announced today an Order Instituting Proceedings, Making Findings and Imposing a Cease and Desist Order (Order) against Sidney Gould (Gould). Gould consented to the entry of the Order without admitting or denying the Commission's findings. The Order found that Gould caused violations of the antifraud provisions of the federal securities and ordered him to cease and desist from committing or causing any violation, and committing or causing any future violation, of such provisions.

The Order makes findings that from 1984 through 1989, First Humanics Corp. (First Humanics), a not-for-profit corporation acquired 21 nursing homes through 21 public offerings of municipal bonds raising over \$80 million. In connection with one such offering, Gould as an officer and director of First Humanics, caused misrepresentations and omissions of material fact concerning: the promoter of the offerings, the promoter's control over the not-for-profit corporation as well as his regulatory history and numerous prior bond and business failures; the prevalent commingling of revenues from earlier First Humanics nursing home acquisitions and the resulting financial interdependence of all First Humanics nursing homes; and First Humanics on-going Ponzi scheme. (Rels. 33-7201; 34-36037)

ADMINISTRATIVE SANCTIONS IMPOSED AGAINST CARMEN ELIO AND FANEUIL HALL SECURITIES, INC.

The Commission announced that on July 31 it entered an order instituting administrative proceedings against Elio and Faneuil Hall Securities by consent. The Order permanently bars Elio from association with any broker, dealer, investment company, investment adviser or municipal securities dealer and revokes Faneuil Hall Securities' investment adviser registration. (Rels. 34-36039; IA-1513)

VINCENT ACKERLY, JR. BARRED

The Commission entered an order barring Vincent R. Ackerly, Jr. from association with any broker, dealer, municipal securities dealer, investment adviser or investment company on the basis of his failure to file an answer in pending administrative proceedings. The Commission found that Mr. Ackerly willfully violated Sections 5 and 17(a) of the Securities Act of 1933 and 10(b) and 15(c) of the Securities Exchange Act of 1934 and Rules 10b-5, 10b-6 and 15c1-2 thereunder while acting as a trader at Graystone Nash, Incorporated in 1987 and 1988. The Commission found that Vincent R. Ackerly, Jr. participated in a fraudulent scheme at Graystone involving public offerings through Graystone of units of common stock and warrants and in refusing to execute and delaying execution of sell orders for certain stocks. (Rel. 34-36041)

REGISTRATION REVOKED FOR KINLAW SECURITIES CORPORATION AND JOE KINLAW BARRED

The Commission instituted public administrative proceedings under the Securities Exchange Act of 1934 against Kinlaw Securities Corporation (Kinlaw Securities), a broker-dealer firm located in Dallas, Texas, and its president, Joe D. Kinlaw (Joe Kinlaw). Simultaneously, the Commission accepted Kinlaw Securities' and Joe Kinlaw's Offers of Settlement. The Commission found that on July 27, 1995, Kinlaw Securities and Joe Kinlaw, without admitting or denying the allegations in the Commission's Complaint and First Amended Complaint, consented to the entry of a permanent injunction for violations of the securities registration and antifraud provisions of the federal securities laws. The Commission's complaint, as amended, alleged that in connection with the offer, purchase and sale of securities in the form of investment contracts involving interests in oil and gas drilling ventures, Joe Kinlaw and Kinlaw Securities operated a boiler room" sales operation in which they made material misrepresentations and omissions of material fact concerning, among other things, the risks and expected returns associated with the oil and gas investments, the costs to drill and complete oil and gas wells, and the success of prior oil and gas wells.

The Order provides that Kinlaw Securities' broker-dealer registration with the Commission be revoked and Joe Kinlaw be barred from association with any broker, dealer, municipal securities dealer, investment adviser or investment company.

In their Offers of Settlement, Kinlaw Securities and Joe Kinlaw consented to the Commission's Order without admitting or denying the findings, except as to the permanent injunctions entered against them. (Rel. 34-36048)

IN THE MATTER OF WENDELL GUNN

The Commission announced today the institution of Public Administrative Proceedings pursuant to Section 21C of the Securities Exchange Act of 1934 (Exchange Act) against Wendell L. Gunn (Gunn). Simultaneously, the Commission accepted an Offer of Settlement submitted by Gunn, without his admitting or denying the findings of the Commission and issued an order making findings and ordering him to cease and desist. Gunn was the principal financial and accounting officer of Kentucky Central Life Insurance Company (Kentucky Central).

The Commission found that Gunn violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and caused Kentucky Central to violate Sections 13(a) and 13(b) (2) (B) of the Exchange Act and Rules 13a-1, 13a-13 and 12b-20 thereunder.

Specifically, the Commission found that Gunn knew or was reckless in not knowing that Kentucky Central's allowance for mortgage loan losses and related provision were materially understated and, therefore, Kentucky Central's net income materially overstated for the year ended December 31, 1990 and for certain quarters in 1990 and 1991. The Commission also found that Gunn knew that Kentucky Central improperly recognized interest income for two quarters in 1992 and that Gunn knew or was reckless in not knowing that material facts concerning its largest borrower were not disclosed. (Rel. 34-36051; AAE Rel. 692)

IN THE MATTER OF EDWIN SCHAEFFER AND CHARLES HEMBREE

The Commission announced today the institution of Public Administrative Proceedings pursuant to Section 21C of the Securities Exchange Act of 1934 (Exchange Act) against Edwin F. Schaeffer (Schaeffer) and Charles R. Hembree (Hembree). Simultaneously, the Commission accepted offers of settlement submitted by Schaeffer and Hembree, each without admitting or denying the findings of the Commission, and issued an order making findings and ordering Schaeffer and Hembree to cease and desist. Schaeffer and Hembree are former directors of Kentucky Central Life Insurance Company (Kentucky Central).

The Commission found that Schaeffer violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and that Schaeffer and Hembree caused Kentucky Central to violate Sections 13(a) and 13(b) (2) (B) of the Exchange Act and Rules 13a-1 and 12b-20 thereunder.

The Commission found that Schaeffer knew or was reckless in not knowing, and that Hembree knew or should have known that Kentucky Central materially understated its allowance for mortgage loan losses and related provision and, therefore, materially overstated net income for the year ended December 31, 1990, and that Kentucky Central failed to disclose material facts concerning its largest borrower in its 1990 Form 10-K. (Rel. 34-36052; AAE Rel. 693)

PROCEEDING PURSUANT TO RULE 2(e) OF THE COMMISSION'S RULES OF PRACTICE INSTITUTED AND SETTLED AGAINST JOHN FRENCH, CPA, AND BRENT JONES, CPA

On August 3, the Commission issued an Order pursuant to Rule 2(e)(1)(ii) of the Commission's Rules of Practice against John J. French (French) and Brent Jones (Jones), certified public accountants. The Order finds that French and Jones engaged in improper professional conduct during the audit of the fiscal year 1990 financial statements of MMI Medical, Inc. (MMI). The Order finds that, by understating its deferred revenue and prepaid deposits accounts, MMI materially overstated its consolidated revenue and net income in fiscal year 1990. According to the Order, French and Jones failed to ensure the audit staff selected and examined sufficient sample sizes and verified that the population sampled was complete in order to gain assurances that the deferred revenue and prepaid deposits accounts were properly stated.

The Commission accepted their Settlement Offers wherein, without admitting or denying the Commission's findings, French and Jones agreed to the entry of an Order providing that French and Jones are censured. (Rel. 34-36053; AAE Rel. 695)

ADMINISTRATIVE PROCEEDINGS INSTITUTED AGAINST RIMSON & CO., INC., MOSHE RIMSON, JONATHAN MENDE & ASSOCIATES, INC., JONATHAN MENDE, TODD HICKMAN, CHRISTIAN JEAN-MARIE GIRODET, MITCHELL AGUIRRE, CLAUDIO IODICE, III, ALEX SHINDMAN, YEVGENY SHKILKO, DAVID FEYJIN AND ROGER DANTONI, III

The Commission instituted public administrative and cease and desist proceedings against M. Rimson & Co., Inc., a registered broker-dealer, Moshe Rimson, its president, and others charging fraud and numerous other violations of the federal securities laws.

The Order alleges that, among other things: Rimson & Co., aided and abetted and caused by Rimson, violated the antifraud provisions by engaging in pervasive fraudulent sales practices and other violations through the firm's associated persons, or, alternatively, that Rimson & Co. and Rimson failed reasonably to supervise with a view to preventing these violations; Mende & Assoc., Mende, Hickman, Girodet, Aguirre, Iodice, and Shindman violated the antifraud provisions; Mende and Hickman unlawfully operated Mende & Assoc. as an unregistered broker-dealer, and Rimson and Rimson & Co. aided and abetted and caused this operation; Feyjin and Dantoni, aided and abetted by Shkilko, violated the antifraud provisions; and Rimson & Co. and Rimson willfully violated the penny stock rules and the books and records provisions of the Exchange Act, and unlawfully employed unregistered securities salespersons.

A hearing will be scheduled to take evidence on the allegations of the Commission's Division of Enforcement and afford the respondents an opportunity to present any defenses. The purpose of the hearing will be to determine whether the allegations against the respondents are true, and, if so, what remedial action, if any, is appropriate, whether cease and desist orders should issue, whether disgorgement should be ordered, whether civil penalties should be imposed, and whether respondents should be barred from participating in penny stock offerings. (Rel. 34-36054)

COURT ENTERS TEMPORARY RESTRAINING ORDER AGAINST FIVE DEFENDANTS NAMED IN INJUNCTIVE ACTION TO HALT PRIME BANK SCHEME

The Commission announced that the Honorable Morton A. Brody of the U.S. District Court for the District of Maine entered a temporary restraining order on July 25 unsealed today, against Ellis L. Deyon, Bradley T. Gullett, William Hanke, Dove Investment Group, Inc. and Sherwood H. Craig, prohibiting them from continuing the fraudulent offer and sale of securities, freezing certain assets and requiring repatriation and an accounting of investor funds.

The Commission's civil action, filed July 25 alleged that the defendants violated Section 17(a) of the Securities Act and Sections 10(b) and 15(a) of the Securities Exchange Act and Rule 10b-5 thereunder.

The complaint alleges that since mid-May, 1995, the defendants have fraudulently obtained as much as \$700,000 by promising a virtually risk-free annual return of up to 300%; they represented to investors that their funds would be invested in a "special" Mexican bank account that earned 1020% per year by trading in instruments including "Prime Bank Guarantees." Defendants targeted evangelical Christian ministries, presenting themselves as fellow believers, and induced unsophisticated investors of modest means to take such extraordinary steps as obtaining second mortgages on their homes and cash advances against credit cards in order to obtain money to invest.

In fact, however, according to the complaint, the bank account earns no such extraordinary return, the investments are highly risky, and there are no "Prime Bank Guarantees."

The Commission's complaint seeks permanent injunctive relief, disgorgement and civil monetary penalties. The Court has scheduled a hearing on the Commission's application for a preliminary injunction for August 16, 1995. [SEC v. Deyon, et al., Civil Action No. 95-0164-B, D. Me.] (LR-14586)

CIVIL ACTION AGAINST MALCOLM CHEEK AND ROBERT ZAK, JR.

The Commission filed an action against Malcolm Cheek, the former president and CEO of Y&A Group, Inc., and Robert W. Zak, Jr., its former CFO. The complaint alleged that from 1989 to 1991, Cheek intentionally overstated Y&A's earnings, falsified Y&A's books and records, and lied to Y&A's auditors, and that Zak failed to follow GAAP and engaged in insider trading of Y&A securities. Without admitting or denying the allegations, Cheek consented to a judgment barring him from serving as an officer or director and enjoining him from violating Section 17(a) of the Securities Act, Sections 10(b) and 13(b)(5) of the Exchange Act, and Rules 10b-5, 13b2-1, and 13b2-2. Without admitting or denying the allegations, Zak consented to a judgment ordering him to disgorge \$175,000 and enjoining him from violating Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Rule 10b-5. [SEC v. Cheek, et al., 95-CV-1451, United States District Court for the District of Columbia, NHJ] (LR-14588; AAE Rel. 694)

ORDER GRANTING PRELIMINARY INJUNCTION AND OTHER RELIEF ENTERED AGAINST UNITED BENEFITS GROUP, INC., UNITED BENEFITS GROUP TRUST, INC., NICHOLAS DEANGELIS, FREDERICK NEIL HOLLANDER AND ZANE BALSAM

On July 18, the Honorable Shelby Highsmith, U.S. District Judge for the Southern District of Florida entered an Order Granting Preliminary Injunction and Other Relief against United Benefits Group, Inc. (UBG), United Benefits Group Trust, Inc. (UBG Trust), two Boca Raton, Florida companies, Nicholas DeAngelis (DeAngelis) of Parkland, Florida, Frederick Neil Hollander (Hollander) of North Miami, Florida, and Zane Balsam (Balsam) of Boca Raton, Florida (Defendants). The Court found in its Order that the death benefit interests payable under life insurance policies which were sold by the Defendants are securities and, as such, preliminarily enjoined them from violating Section 5(a) and 5(c) of the Securities Act of 1933 (Securities Act). The Court further found that the Defendants engaged in an interstate scheme to defraud and preliminarily enjoined UBG, DeAngelis, Hollander and Balsam from violating Section 17(a) of the Securities Act and Section 10(b) of the Securities Exchange Act of 1934 (Exchange Act) and Rule 10b-5, thereunder. The Court also preliminarily enjoined UBG Trust from violating Section 15(a)(1) of the Exchange Act. The Court also ordered other relief against all of the Defendants. [SEC v. United Benefits Group, Inc., United Benefits Group Trust, Inc., Nicholas DeAngelis, Frederick Neil Hollander and Zane Balsam, Civil Action No. 95-08421-CIV-HIGHSMITH] (LR-14589)

INVESTMENT COMPANY ACT RELEASES

CIGNA LIFE INSURANCE COMPANY, ET AL.

An order has been issued pursuant to Section 6(c) of the Investment Company Act exempting CIGNA Life Insurance Company (CIGNA Life), CIGNA

Variable Annuity Separate Account I (Account), certain separate accounts that may be established by CIGNA Life in the future to support certain variable annuity contracts issued by CIGNA Life (Other Accounts, collectively, with the Account, Accounts) and Cigna Financial Advisors, Inc. from the provisions of Sections 2(a)(32), 26(a)(2)(C), 27(c)(1) and 27(c)(2) of the Act and Rule 22c-1 thereunder. The order provides exemptions to the extent necessary to permit CIGNA Life to deduct from the assets of the Accounts the mortality and expense risk charge imposed under certain variable annuity contracts issued by CIGNA Life (Existing Contracts) and under any other variable annuity contracts issued by CIGNA Life which are materially similar to the Existing Contracts and are offered through any of the Accounts (Other Contracts, together, with the Existing Contracts, Contracts). Additionally, where the Contract owner has selected an optional death benefit, the order permits applicants to deduct from the value of the Contract an age and gender based charge for the benefits selected. The charge would be deducted upon the occurrence of one of the following events: upon the Contract anniversary; upon annuitization of the Contract; upon surrender of the Contract; or upon payment of the death benefit. (Rel. IC-21264 - August 2)

CONNECTICUT GENERAL LIFE INSURANCE COMPANY, ET AL.

An order has been issued pursuant to Section 6(c) of the Investment Company Act. The order exempts, to the extent necessary, Connecticut General Life Insurance Company (CG Life), CG Variable Life Insurance Separate Account I (Account), any other separate account established by CG Life in the future (Other Accounts, collectively, with the Account, Accounts) to support certain flexible premium variable life insurance policies which are substantially similar, in all material respects, to the Existing Contracts described in the order (Future Contracts, collectively, with the Existing Contracts, Contracts) and Cigna Financial Advisors, Inc. from the provisions of Section 27(c)(2) of the Act and Rule 63(T)(c)(4)(v) thereunder. The exemptions permit applicants to deduct from premium payments received a charge that is reasonable in relation to CG Life's increased federal income tax burden resulting from CG Life's receipt of such premiums in connection with the Contracts. (Rel. IC-21265 - August 2)

STIFEL NICOLAUS & COMPANY, INCORPORATED

A notice has been issued giving interested persons until August 28 to request a hearing on an application filed by Stifel Nicolaus & Company, Incorporated for a permanent order under Section 9(c) of the Investment Company Act exempting applicant from Section 9(a) of the Act. A temporary order under Section 9(c) exempting applicant from Section 9(a) also has been issued. (Rel. IC-21266 - August 3)

SELF-REGULATORY ORGANIZATIONS

PROPOSED RULE CHANGE

The New York Stock Exchange filed a proposed rule change (SR-NYSE-95-23) relating to the listing of investment company units. Publication of the notice is expected in the Federal Register during the week of August 7. (Rel. 34-36032)

The Chicago Board Options Exchange filed a proposed rule change (SR-CBOE-95-32) relating to listing and maintenance criteria for options on American Depositary Receipts. Publication of the notice is expected in the Federal Register during the week of August 7. (Rel. 34-36049; International Series Rel. 834)