Rooney Pace Is Dogged by Many Problems --- Woes Raise Questions About Regulators' Effectiveness

By Scott McMurray
Staff Reporter of The Wall Street Journal
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NEW YORK -- Two years ago, Rooney, Pace Group Inc. was riding high. The company's Rooney, Pace Inc. securities unit brought public one youthful and largely untested company after another, and even took the unusual step of underwriting its own shares.

Although some of those stocks have performed well, many have nose-dived as the bottom fell out of the bull market for speculative stocks in late 1983. But few of the issues were as speculative as Rooney Pace's own.

The bear market in underwritings, weak management practices and a string of disastrous outside investments have nearly wiped out the firm's net worth.

Whether the investment banking and securities firm can rebound is uncertain, current and former officials say. Several federal and state regulatory investigations and proceedings are clouding its future. One, currently under appeal, could result in the suspension of Chairman Randolph Pace from the firm for three months. In another case, the securities unit is named as a defendant in customer lawsuits charging that it manipulated prices of certain stocks; the customers are seeking more than $4 million in damages.

Also, Rooney Pace Group has told holders of its own high-yielding bonds that if it paid them $2 million of interest that was due Aug. 1, the company could enter bankruptcy-law proceedings. As a result, it is exchanging $25.7 million of high-yielding bonds for a package of equity and lower-yielding debt securities. It had sold the bonds to investors only last August.

The firm's problems also raise questions about the effectiveness of securities regulators, particularly the Securities and Exchange Commission and the New York Stock Exchange, of which the firm's securities unit is a member. Rooney Pace is the latest in a string of securities firm operators that have had severe, sometimes fatal, financial problems in recent years. Although regulators have moved against the firm recently, some people in the industry feel the actions are too little and too late when it comes to protecting customers. The SEC and the Big Board declined to comment on Rooney Pace.

Says Perrin Long, a securities analyst with Lipper Analytical Securities Inc.: "It's surprising the SEC didn't take firmer action on some of the cases that came before it" concerning Rooney Pace. "The SEC has been somewhat lax, because of lack of manpower or whatever, from taking a hard look at what a number of small firms are doing around the country."

Mr. Long says that "in a lot of ways, Rooney Pace is close to another John Muir." John Muir & Co. was a small securities firm that specialized in underwriting and aggressively marketing new stock issues. It was forced to close in 1981 after trading and inventory losses exceeded its net worth. After Muir failed, Rooney Pace took over several thousand of Muir's customer accounts and hired some of its top salesmen.

Mr. Pace and Patrick Rooney formed Rooney Pace Group in 1978 with a $60,000 investment. Mr.

Rooney, 45 years old, was the driving force as the company grew, according to current and former officials. Cold and reserved to most people, Mr. Rooney rarely delegated authority or confided his plans to others, they say. "Pat was the one who wanted to expand the firm," in part by buying holdings in a number of other companies, says a former Rooney Pace managing director. "Victor Posner was his hero," he says, referring to the Florida financier.

A former accountant, Mr. Rooney displayed his recently acquired wealth by being chauffeured in a Maserati and by buying a palatial weekend home on Long Island, former Rooney Pace employees say.

Mr. Pace, 39, is jovial and outgoing, and was considered by employees to be "Mr. Inside." He oversaw retail and trading activities while Mr. Rooney concentrated on acquisitions.

Mr. Rooney resigned as chairman and co-chief executive officer in May to run Norlin Corp., a troubled financial printing company nearly one-fourth owned by Rooney Pace. He declined to be interviewed for this article. Mr. Pace, formerly president, is now chairman and chief executive officer. Mr. Pace said he couldn't comment while Rooney Pace's exchange offer is still in effect.

Within five years of its start-up, by concentrating on bringing public small start-up companies that other securities firms often thought were too green to touch, the company built its net worth -- assets minus liabilities -- to more than $15 million.

It more than doubled that with a public offering of 2.25 million shares of its own stock in October 1983. The stock, offered at $8 a share, closed yesterday at $1.75, down 12.5 cents in American Stock Exchange trading. If the firm can't exchange its high-yielding bonds, it says it would have a deficit of about $6 million. If the offering succeeds, the firm will have from $7 million to $10 million in net worth. The securities unit currently has about $700,000 in net worth, which is more than enough to operate because it clears all trades with Bear, Stearns & Co.

Because it was the only dealer making a market in many of the issues it underwrote, Rooney Pace's securities unit was stuck with multimillion dollar inventory losses as the stocks plummeted in value over the past two years. For example, Rooney Pace lost about $3 million from its stock holdings of financially troubled Regent Air, mostly in the year ended May 1984.

Moreover, Rooney Pace spent heavily to expand its branch office system and attract new brokers with expensive employment contracts and guarantees.

The company lost several million dollars by buying or investing in outside companies. Its largest loss has come from its stake in Norlin. Rooney Pace said that for its fiscal fourth quarter ended in May, it expects to report a loss of $9.1 million solely from its investment in Norlin.

"We were clearly an aggressive firm. You don't get to do business by standing still," says a source close to Rooney Pace management, who asked not to be named. "In that situation, sometimes you act before you think."

The securities unit's aggressiveness in some cases worked against customers, according to present and former employees. "We would recommend a stock, but if it started falling, the analyst would abandon it. You didn't see 'sell' recommendations" often, says a former employee.

A securities analyst can have a strong effect on stocks, particularly certain over-the-counter issues that aren't followed by other analysts or traded by many dealers. Positive recommendations often are self-fulfilling prophesies because they create demand that drives up the stock's price. Without the support of a buy recommendation, such stocks often drop sharply in price.

Former customers have sued the securities unit for allegedly manipulating the price of American Educational Computer Inc. shares early this year. A total of 26 former customers, seeking $4.25 million in damages in federal court for Oklahoma, have charged, among other things, that brokers in Rooney Pace's Oklahoma City office artificially inflated the price of the stock by refusing to execute sell orders.

Rooney Pace officials say that the alleged improprieties were carried out by brokers there without the consent or knowledge of Rooney Pace.

In another incident last year, "overly exuberant" Rooney Pace brokers in the firm's newly opened Atlanta branch drove up the price of Eagle Telephonics Inc., a Hauppauge, N.Y., maker of telephone equipment, according to a former Rooney Pace executive.

The brokers started buying the stock for customers on the recommendation of a Rooney Pace analyst who has since left the firm. That drove up the stock to more than $5 from about $2. At $5 a share, customers are allowed by Federal Reserve Board rules to buy an over-the-counter stock on margin, borrowing up to 50% of the cost. Many Rooney Pace customers did so. Customers and brokers in Atlanta accounted for volume equal to nearly 25% of the shares outstanding of Eagle Telephonics, another former Rooney Pace employee says. Eagle Telephonics closed yesterday at $1.375, unchanged.

At that point the firm worried that it held too much of Eagle Telephonics, the former official says, and might end up losing money if the shares declined in value. So it told the analyst not to recommend the stock and told brokers to stop soliciting orders in the stock and to try to transfer customer accounts with Eagle Telephonics stock to other brokerage firms, the former employee said.

"We didn't have the management to run a branch system. That would never have happened at a major firm," the former official says.

Rooney Pace declines to comment on the Atlanta situation and Eagle Telephonics.

Despite the new-issue slump, Rooney Pace rapidly expanded its retail brokerage system over the past two years.

"We added overhead without being able to generate enough revenues," says Andrew Baxter, a former Rooney Pace executive vice president and currently president of Norlin.

To reduce overhead, the firm has closed 13 branches during the past 15 months and has reduced the number of employees from a high of 498 last fall to about 155 currently. The number of salesmen was cut from 155 to 84.

In its fiscal fourth quarter ended in May, Rooney Pace wrote off $11.6 million for office closings.

But former employees, who admit they resent being laid off, say that Rooney Pace has cut too much. "They cut their overhead by 50%, but they cut revenues by 80%" as a result, claims one former employee.

To improve its retail operation, Rooney Pace earlier this year hired Donald Erenberg, who had been head of retail sales at D.H. Blair & Co., which is also known for its aggressive marketing of shares of unseasoned companies. In April, Stuart Travis, known on Wall Street as a high-powered salesman, and more than 20 other Blair brokers followed Mr. Erenberg to Rooney Pace.

While expanding its brokerage system, Rooney Pace Group also bought interests at bargain prices in financially troubled companies. "We were erecting a bigger sail so that when the market came back we could take off," Mr. Baxter said. But the timing and choice of targets could hardly have been worse, he concedes.

For example, Norlin has generated nothing but losses for Rooney Pace, which is talking with several parties about buying its stake in the financial printer, he says.

"We're going back to our niche" of small company underwriting, says a source close to Rooney Pace management, who predicted the firm would overcome its current troubles. "Maybe in three to five years we'll be accepted as an established firm," he says.

Rooney Pace, New Jersey Firm Agree to Merger
By Lee Berton
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NEW YORK -- Rooney Pace Group Inc. and closely held Sherwood Capital Group Inc. said they agreed in principle on a previously discussed merger.

Under the agreement, holders of Rooney Pace common stock would receive a sixth of the combined company. Holders of its convertible notes and convertible preferred, assuming full conversion of these securities to common shares, would get another one-sixth of the combined concern.

About two-thirds of the combined company would be owned by holders of Sherwood, which recently announced the proposed acquisition of T.H. Lehman & Co., a small business development concern, and by current holders of Lehman common.

The companies said that both Sherwood, based in Jersey City, N.J., and Rooney Pace will continue their current separate broker-dealer operations. The combined company will have a net worth of more than $30 million, including $17 million from Sherwood.

The performance of Rooney Pace, a retail brokerage firm with 20,000 customers, has deteriorated over the past two years as the firm had losses on investments and spent heavily to expand. Six months ago, the firm, which had a loss of $5.2 million in its fiscal second quarter ended Nov. 29, scaled back its offices to six from 23. Rooney Pace has specialized in underwriting and trading stock of small growth and start-up companies.

Randolph Pace, chairman and cofounder of Rooney Pace, said he would remain chief executive officer of the retail trading subsidiary and would be an executive officer of the new parent company. He said the name of the combined company hasn't been decided, but it would contain "Sherwood," while the Rooney Pace unit would change its name.

He said he will seek to have the stock of the combined company traded on the American Stock Exchange, where Rooney Pace stock currently trades.

Rooney Pace plans to resign its membership on the New York Stock Exchange and, like Sherwood, will continue as a member of the National Association of Securities Dealers. Rooney Pace said it will continue to clear transactions through Bear, Stearns & Co.

For the year ended last May 31, Rooney Pace had a $31.4 million loss, mainly because of losses from its investment in financial printer Norlin Corp. Rooney Pace then sold its holdings in Norlin.

Mr. Pace said he is still appealing a Securities and Exchange Commission administrative ruling that would bar him for three months from working for a brokerage for allegedly violating securities laws.

Sherwood, through its Sherwood Securities subsidiary, has been engaged in over-the-counter market-making and underwriting for about 18 years.

The merger is subject to a definitive agreement, the consent of shareholders of both companies and approval by regulators, the companies said.

Rooney Pace shares closed yesterday at $1.375, down 37.5 cents.

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U.S. Appears to Intensify Campaign Against Milken; New Indictment Likely

By Laurie P. Cohen
Staff Reporter of The Wall Street Journal
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With a new and expanded indictment against Michael Milken expected before year end, the government appears to be intensifying its campaign against the former Drexel Burnham Lambert Inc. junk-bond chief.

In recent weeks, prosecutors have held discussions with attorneys for a number of individuals who may serve as potential witnesses against Mr. Milken. The government also is continuing to look into Mr. Milken's role in a variety of securities transactions that weren't included in the 98-count indictment returned against him in March.

Mr. Milken pleaded innocent to the indictment's charges that he had committed a variety of crimes including racketeering, securities fraud and tax-law violations. Throughout the government's three-year investigation, Mr. Milken has maintained he did nothing wrong.

In recent weeks, prosecutors are understood to have held discussions with attorneys for David Sydorick and Roy Johnson, two junk-bond traders in Drexel's Beverly Hills, Calif., office who worked for Mr. Milken. While prosecutors are understood to have offered the two traders immunity from criminal prosecution in exchange for their testimony, the Securities and Exchange Commission apparently hasn't agreed to assure the two that they won't be charged in a civil complaint. Neither has accepted the immunity offers. Alan Kaufman, an attorney for Mr. Sydorick, and Charles Stillman, an attorney for Mr. Johnson, both declined to comment.

However, prosecutors have reached an immunity agreement with David Sachs, a top official of Columbia Savings & Loan Association, once one of the largest buyers of junk bonds sold by Drexel. Columbia has acknowledged that prosecutors have been examining dozens of bond trades that Columbia did with Drexel in which Drexel reportedly bought bonds from Columbia at year end with the understanding that Columbia would buy the bonds back later. Columbia has said that no laws were violated. An attorney for Mr. Sachs didn't return calls seeking comment.

The government is also said to be looking at many securities transactions that weren't included in the earlier indictment. According to individuals familiar with the investigation, one area of inquiry is whether Mr. Milken tipped favored customers to buy bonds of certain companies based on inside knowledge that these companies planned to initiate exchange offers for the bonds. Among the transactions the government is said to be looking at are exchange offers for bonds of Caesars World and Tiger International Inc.

"We're not going to comment on these continuous leaks and we will not try this case in the press," said Martin Flumenbaum, an attorney for Mr. Milken.

Prosecutors are also focusing on a 1984 junk-bond offering by Rooney, Pace Inc., a defunct brokerage firm. The offering was underwritten by Rooney Pace after Drexel's underwriting committee passed on the deal. But the bonds were said to have been placed by Mr. Milken, with the assistance of Gary Winnick, a former Drexel junk-bond salesman, according to individuals familiar with the investigation.

It was unclear what prosecutors are concerned about in the deal.

Individuals familiar with the probe said Mr. Winnick has been feeling increasing pressure in recent weeks to talk with prosecutors, although he has never received notice from prosecutors indicating he is likely to be indicted. Gary Naftalis, an attorney for Mr. Winnick, wouldn't comment.

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New Indictment Against Milken Expected Soon --- Debt of Tiger International, Caesars World, Republic Air Said to Be Involved

By Laurie P. Cohen
Staff Reporter of The Wall Street Journal
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An expanded indictment against Michael Milken and others, including additional defendants and significant new charges, is expected next week, according to individuals familiar with the case.

Mr. Milken, the former head of Drexel Burnham Lambert Inc.'s junk bond operations, is expected to face charges relating to insider trading in at least three deals that weren't included in his March indictment, the individuals said. The securities involved were those of Caesars World Inc., Tiger International Inc. and Republic Airlines, the individuals said.

In addition, Mr. Milken is likely to face charges alleging that he illegally ordered others to destroy records detailing trades with former Wall Street stock speculator Ivan Boesky. The government is also expected to accuse Mr. Milken of helping certain favored clients evade tax laws and of establishing partnerships that defrauded investors in certain junk bond funds.

When the long-awaited indictment is finally handed up by a federal grand jury in Manhattan, it is expected to be about 200 pages long, roughly twice as long as the 98-count indictment issued in March. That indictment charged Mr. Milken, his brother, Lowell Milken, and former Drexel trader Bruce Newberg with racketeering and securities, mail and tax fraud. All three pleaded innocent to the charges.

The new indictment is likely to name the same three individuals, as well as Alan Rosenthal, a former head of Drexel's convertible bond unit, and Warren Trepp, Drexel's chief junk bond trader. The Justice Department last month approved bringing racketeering charges against them. Attorneys for each said their clients had engaged in no wrongdoing.

Similar charges previously were approved by the department against Peter Gardiner, a former Drexel convertible bond trader. Individuals familiar with the investigation said Mr. Gardiner may also be named in the new indictment. Mr. Gardiner's attorney said his client did nothing wrong.

The new indictment is likely to allege that Mr. Milken personally benefited from insider trading in the securities of Caesars World, Tiger International and Republic Airlines, the individuals said. Mr. Milken's trading in Caesars World was investigated by the Securities and Exchange Commission in 1984 and 1985. That investigation ended without the government's taking any action. But according to published reports, the SEC investigation focused on Mr. Milken's trading in the securities of Caesars World shortly after he attended a meeting with the company's chairman to discuss the possibility of Drexel's doing an exchange offer for some of Caesars World's debt outstanding.

The government is expected to allege that Mr. Milken purchased Caesars World bonds for Drexel's account shortly after that meeting and later moved the bonds into his personal profit-sharing account. The bonds soon after became the subject of an exchange offer involving Drexel, and Mr. Milken sold them at a huge profit, said individuals familiar with the inquiry.

The government is expected to allege that Mr. Milken benefited similarly by knowledge of Tiger's planned 1984 exchange offer. He is alleged to have bought Tiger bonds in anticipation of the offer Drexel was helping to underwrite.

The government is also said to have focused in recent months on Northwest Airlines' acquisition of Republic in 1986. Mr. Milken is said to have bought Republic debentures in January 1986 for Drexel's account, after learning that Northwest intended to make a bid to acquire Republic. He is later said to have transferred the debentures into his own account, profiting on the merger, according to the people familiar with the government's case.

A spokesman for Mr. Milken said, "We're not going to comment on these continuous leaks that are designed to deny Michael Milken a fair trial, and we will not try this case in the press."

Moreover, Mr. Milken is likely to be charged with obstruction of justice, a felony, in connection with the alleged destruction of documents in 1986, after it was learned that Mr. Boesky was under investigation.

In the March indictment, the government alleged that Mr. Boesky parked certain securities at Mr. Milken's direction. Parking occurs when securities are purchased with the understanding that they will be sold back to the original owner, usually at a pre-arranged time and price. In March 1986, Mr. Boesky allegedly paid Drexel $5.3 million, the amount owed to Drexel for the parking arrangement.

According to a May 1988 action memorandum to the SEC from its division of enforcement, Charles Thurnher, a Drexel employee, said he destroyed records connected with the arrangement in April 1986. The document said Mr. Thurnher, who received immunity from prosecution in exchange for his testimony, claimed to have destroyed the records without explicit instructions from Mr. Milken.

But other current and former Drexel employees have since testified before the grand jury that Mr. Milken ordered them to turn allegedly incriminating documents over to his assistant or to destroy the documents, according to individuals familiar with the case.

Mr. Milken is also expected to be charged with helping David Solomon, former chief investment officer of Solomon Asset Management, and Columbia Savings & Loan Association to violate tax laws. According to individuals familiar with the investigation, evidence has been presented to the grand jury that showed that Mr. Solomon bought bonds in December 1985 and, in a pre-arranged trade, sold them back to Drexel at a loss of about $1.6 million.

That permitted Mr. Solomon to claim immediate trading losses for tax purposes, according to the individuals. Mr. Solomon is expected to be a chief prosecution witness against Mr. Milken.

The government is expected to allege that Columbia parked bonds at Drexel from 1983 through 1986 to generate tax losses. Columbia, which won't be named as a defendant, has claimed it did nothing illegal because, although the trades made a tax benefit available, Columbia didn't claim such a benefit in three of the four years.

Prosecutors are also likely to charge Mr. Milken with paying off some customers to induce them to buy hard-to-sell securities from Drexel. Mr. Milken is expected to be charged with establishing a partnership known as MacPherson Partners in connection with Kohlberg Kravis Roberts & Co.'s 1985 acquisition of Storer Communications Inc.

In exchange for buying securities Drexel is said to have had difficulty marketing, the government is expected to claim that Mr. Milken gave certain preferred customers the opportunity to participate personally in the Drexel partnership. The customers, most of them junk bond portfolio managers, received Storer warrants at prices substantially below market value, which later earned them huge profits, the government is expected to allege. Mr. Milken is likely to be charged in the indictment with arranging to defraud investors who otherwise might have benefited from the warrants.

Mr. Milken is also likely to be charged with forcing Drexel to fail to disclose its role in a 1985 junk bond offering for Rooney, Pace Group Inc., a defunct New York-based securities firm. The offering was underwritten by Rooney Pace but was actually placed by Mr. Milken, the individuals said.

There was never any disclosure of Drexel's involvement in the offering, and Drexel was compensated with the payment of junk bonds, many of which are said to have ended up in Mr. Milken's personal account, according to individuals familiar with the case.

Sleazy doings on Wall Street.(clearing firm owned by Bear, Stearns & Co. involved in failure of bucket shop stock brokerage A.R. Baron & Co.)(Cover Story)

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AN OBSCURE New York City brokerage firm, A.R. Baron & Co., slipped into bankruptcy last July. Brokerage is not the right word. It was a bucket shop. Baron was in trouble with regulators from the moment it opened its doors four years earlier. When it closed, its customers were on the hook for roughly $22 million. Its owner, a 31-year-old egomaniacal fellow named Andrew Bressman, has filed for bankruptcy. The N.Y. County district attorney's office has convened a grand jury on the A.R.Baron affair.

Just another boiler-room blowup? These outfits come and go, and not much has changed since the days when Robert Brennan and Denver-based Meyer Blinder ravaged and raped small investors. But this debacle was different. In failing, Baron laid bare a corner of the securities industry that is rarely seen but is hugely profitable: processing trades for other firms.

This involves clearing customer trades, processing securities transactions and other paperwork, and providing capital necessary for smaller broker/dealers to conduct their business. A major player in the clearing business is the prestigious, publicly traded brokerage giant Bear, Stearns &Co. Inc. Guess who cleared for Baron? Bear, Stearns Securities Corp., its clearing subsidiary. And guess who figures prominently in the story? Randolph Pace, a notorious bucket-shop operator of the past, who has been the subject of numerous regulatory actions during his short career in the securities business. Pace co-owned Rooney, Pace Inc. in the 1980s.

Processing of securities transactions was little noticed until 1968, when, amid growing trading, stock exchanges began closing down on Wednesdays so clerks could sort out the mountains of tickets representing customer orders. Volume had simply grown too fast for the then-primitive systems to handle. A number of famous old firms went under-Goodbody & Co., among others. Computers and vast infusions of capital eventually solved the problem.

Because expensive computer systems are required, the clearing business has become concentrated in fewer hands. Most large brokerage firms and banks, such as Merrill Lynch,Smith Barney, Chase and J.P. Morgan, still clear their own customers' trades, but many others do not. Since 1983 the number of clearing firms has declined-from 1,200 to 780-while the number of broker/dealers (also called introducing brokers) has risen from 3,500 to 5,000. Big names in clearing are Pershing, a division of Donaldson, Lufkin & Jenrette; Correspondent Services Corp., a subsidiary of PaineWebber Inc.; and Prudential Securities.

Bear, Stearns' clearing subsidiary is a big player, with 2,100 customers, up from 725 in 1987. It is so big in this business that it claims to handle 12% of the New York Stock Exchange's volume. Its clearing customers generate more than 100,000 trades every day. A decade ago its daily trades averaged 33,000. Most of Bear's clearing clients are small OTC marketmaker firms, hedge funds and money managers-good customers, solvent and well respected. But then there was Baron. As it turns out, Bear, Stearns clears for other outfits like Baron.

Officials at Bear, Stearns declined to be interviewed for this story. Company spokesperson Hannah Burns says: "Clearing is a very, very proprietary business for us, and we don't want the public knowing about it."

A strange comment. Doesn't the public have a right to know how its trades are handled? Clearing is much more than a routine process of matching the seller of a security with the corresponding buyer. A clearing firm also ponies up significant capital to each of its introducing brokers, allowing them to do business on a relatively small deposit, usually a minimum of $250,000. However, if a customer fails to pay, it is the introducing broker who gets stuck, not the clearing firm. Nor is the clearing firm on the hook if brokers at one of the introducing firms engage in unauthorized trading or other securities' laws violations. In short, the clearing firm shares in the profits but takes none of the regulatory heat.

A clearing firm's chief vulnerability is if one of its broker/dealers fails and winds up owed more by customers than what it has in cash. In most cases that risk is modest if the clearing firm keeps a watchful eye on its customers' dealings.

One veteran of the clearing business says:"A clearing firm looks at its customers' numbers every day. The first time trouble shows its head, you stop it immediately." Clearing firms can terminate their agreements with customers at any time, but they usually give the firm a grace period of a month or two to find a new home.

The risk of a firm's failing is, how-ever, far outweighed by the financial rewards of the clearing business. First there's the introducing broker's deposit paid to the clearing firm, which can use the money interest-free. Then there are the fees a clearing firm levies on every transaction an introducing firm makes-called a "ticket charge"-of anywhere from $10 to $30 per trade. The clearing firm also charges interest-typically 1% a month-of customer debit balances carried on the clearing firm's books. The interest meter starts ticking the day a trade is done. This is where the real money in clearing is made. Clearing firms like Bear,Stearns also have free use of customers' credit balances.

Last but not least, clearing firms such as Bear demand that an introducing broker's listed equity business-trades in NYSE and Amex stocks-all be funneled to its trading desks. Other firms would pay 2 cents or 3 cents a share for this order flow; Bear gets it for free.

The man running this gold mine at Bear, Stearns is Richard Harriton, 61, an imposing and imperious man who came to the firm in 1979. Reportedly the son of a Brooklyn bakery- supply salesman, Harriton has become a wealthy man as a Bear, Stearns senior managing director. He sits on the firm's Management and Compensation Committee, which decides how many millions of dollars will be parceled out to the company's executives in bonuses each year.

Bear is known for its largesse to top employees. Last year, for example, Bear, Stearns President and Chief Executive James Cayne made $20.4 million in compensation; Chairman Alan (Ace) Greenberg got $18.9 million; Executive Vice President Warren Spector received $19.5 million. Harriton's compensation was unspecified in the proxy and the annual report, but it was no doubt hefty.

Bear, Stearns' financials don't specify how much its clearing business brings in.

With reason:Why let outsiders in on how lucrative its clearing is? In 1996 Bear produced revenues of $5 billion, on which it earned $496 million. Clearing almost certainly contributed to Bear's extraordinary results-up 68% in its most recent quarter, ended December. The firm's stock surged to an alltime high of $31.75.

All Wall Street firms have personalities; Bear's is scrappy and entrepreneurial. Bear executives are encouraged to behave as aggressive and enterprising sole proprietors.If they do so successfully, they will get their reward in the form of a bigger bonus.

Running one of Bear's biggest profit centers makes Harriton a towering figure there. His contributions to the firm's bottom line make it likely that he is autonomous, left alone to manage his fiefdom. He reportedly has introduced himself to prospective clearing customers by saying: "I run the most profitable division of Bear, Stearns and I'm the most powerful man on Wall Street in clearing." It is widely assumed that he runs his show without much input from the top boss, Alan Greenberg.

What is so special about Bear, Stearns' clearing work? Harriton knows that what he is selling is not just his firm's back-office processing: All clearing firms have sophisticated systems and most charge less to perform these services than Bear. What Harriton is selling-especially to the small and dubious firms-is respectability. If Bear's famous name appears on the trade confirmation or monthly statement as the clearing firm, who can doubt that his money is in safe hands?

Even before the Baron debacle, some of the biggest Wall Street flameouts had been clearing customers of Bear, Stearns Securities Corp.

One of Bear, Stearns' first clearing customers was Rooney, Pace Inc., a notorious stock manipulator firm shuttered by regulators in 1987. Former co-owner, Randolph Pace, is a close friend of Harriton and regularly brings new clearing customers to Bear.

Another clearing customer in Bear, Stearns' recent past was D. Blech &Co., the investment firm run by David Blech that specialized in biotechnology stock underwritings. D. Blech's failure in 1994 reportedly left $200 million in investor losses and clearing firm Bear on the hook for $10 million.

Bear,Stearns also cleared for Stratton Oakmont from 1990 until early 1994, when Bear bounced the firm amid bad press about its boiler-room tactics. Stratton was effectively shut down by regulators last month.

Right now Bear, Stearns is the clearing firm for at least 15 brokerages that are, if not full-fledged bucket shops, close to it. (See chart, p. 118.) These include Sterling Foster, charged last September in a $53 million fraud complaint by the NASD for manipulating stock prices of newly issued stocks; Lew Lieberbaum & Co., of Garden City, N.Y.; Josephthal Lyon & Ross Inc. of New York City.

Does having Bear as a clearing firm give cachet to smaller firms? Just ask Ian Barry, investment manager of Fiduciary Management Services, developers of Grand Bahama Island. In July 1995, Barry learned that the broker handling his client's $2 million account was moving its back-office business from Denver-based Hanifen, Imhoff to industry giant Bear, Stearns. "I felt we were in excellent hands," says Barry, from his office in Bermuda. "Bear, Stearns was a household name."

A global reputation was important to Barry because Fiduciary Management's broker, Richard Simone, had recently left Alex Brown & Sons for a brokerage firm Barry did not know-A.R. Baron &Co. Although Barry trusted Simone, he also says he felt comfortable with Simone's shift to Baron because of the Bear, Stearns connection.

Barry didn't rest easy for long. Immediately after Baron announced its new clearing arrangement with Bear, Stearns, Barry began receiving confirmations of trades in Fiduciary's account that he had never authorized Simone to do, stocks that bore no relation to the conservative securities Barry generally dealt in.

Unable to get these $2 million trades reversed by Simone, or A.R.Baron's owner, Andrew Bressman, Barry went to Bear, Stearns for help in canceling the unauthorized trades. Even though Barry notified Bear of the unauthorized trading within ten days, as required by New York State law, Bear, Stearns moved not one inch to rescind the trades. Bear advised Barry to take it up with Baron, claiming to be "just the clearing firm."

Barry never got satisfaction from Baron. As it turned out, Barry was one of many Baron customers victimized by the unauthorized trading. According to the Securities &Exchange Commission, since its very first days A.R. Baron had engaged in egregious sales practice abuses, including rampant unauthorized trading in customer accounts, and abusive sales practices involving stocks that it underwrote.

In industry parlance, Baron was a firm that employed a "no net sales" policy. That meant Baron's brokers would allow their clients to sell a position in one of their so-called house stocks only if another of the firm's clients placed orders to buy the shares. In short, a Baron stock couldn't drop because the broker wouldn't permit trades at lower prices. This had the effect of propping up Baron's special stocks, for a while at least.

As Barry discovered, Fiduciary's $2 million was used to buy shares in a Baron house stock-Cypros Pharmaceutical-that somebody else was likely selling. When the firm went bankrupt months later, Fiduciary Management was left with around $2.6 million in losses.

Fiduciary Management, in suing Bear, is represented by Lewis Lowenfels, a highly respected securities lawyer in New York City whose writings have been cited by the U.S. Supreme Court. Says Lowenfels: "The Fiduciary Management case goes to the heart of the legal responsibilities of clearing firms in relation to introducing brokers." In other words, in keeping Baron alive for almost a year, Bear, Stearns enabled the firm to harm investors with its fraudulent sales practices. As a result, Bear was perhaps more than just a clearing firm.

Bear, Stearns disavows responsibility for Fiduciary's losses, even though the firm was notified of the unauthorized trades almost immediately after they were placed.

Bear itself lost money in the Baron mess; it is identified in Baron filings as a creditor of the firm in the amount of $2.3 million. Oddly, Bear has not filed a claim with the bankruptcy court, perhaps trying to minimize its link to the disaster.

Why would Bear, Stearns risk its reputation by dealing for a firm like Baron? On July 17, 1995, for example, A.R. Baron settled a case with the NASD, agreeing to pay the regulator $1.5 million in fines and restitution; Baron's principal, Bressman, paid $35,000 to settle charges that he and the firm executed trades for customers at unfair and unreasonable prices. Three days after this public shaming, Bear, Stearns agreed to begin clearing for Baron.

Until the firm finally failed in July 1996, Baron's capital position several times fell below the minimum required by regulators. This means Baron could not conduct business until it put up more capital. On several occasions Baron simply closed its doors. But Bressman & Company would always manage to rustle up the necessary capital somewhere. At a crucial point in the fall of 1995, Bear put up $1.1 million of its own capital to float Baron back up to minimum levels.

All the while, Bear was receiving customer complaints from folks like Ian Barry. Bear continued to clear for Baron as SEC and NASD regulators were at Baron auditing and investigating continually throughout 1995. Finally, Baron was bleeding money: During the month of October 1995, for example, Baron had $5 million in losses and unpaid-for trades. Bear continued to clear.

The question of why Bear was involved with Baron gets even more curious when you discover that Bear had cleared for Baron once before, in 1992. Bear ended its clearing relationship with Baron that summer during an underwriting that Baron had in the works-Cypros Pharmaceutical. Harriton told Baron to look around for another clearing firm because Bear was afraid the Cypros deal would unwind and end up with a stock trading below the offering price. In short, Bear was worried Baron could not support the shares in the aftermarket. Baron found another clearing firm, Adler Coleman.

Unfortunately for Baron, Adler Coleman went bankrupt in 1995, so once again Baron needed a clearing firm. It landed at Hanifen, Imhoff for roughly three months, but was kicked out.

Why did Bear now open its doors to Baron?The question is especially compelling when you realize that because of the nature of Baron's business, Bear wasn't really making all that much money on its clearing business.

Remember the variety of ways a clearing firm makes money.The most profitable is charging interest on the firm's customer debits-typically a result of stocks bought on margin. But Baron had no customer debits-it was a firm, as many bucket shops are, that specialized in stocks that are not marginable. Baron's customers had no margin positions.

Neither did Baron's clients typically have credits in their accounts-cash resulting from a liquidated stock position.

Another interesting fact: Harriton's number-two man on the operations side at Bear, Stearns Securities Corp., Peter Murphy, wanted to throw Baron out. Murphy was overruled by Harriton.

Why would Harriton deal with a clearly disreputable bucket shop?

Was it as a favor to Morris and Abraham Wolfson, sons of New York real estate magnate Zev Wolfson-developer of One State Street Plaza? Morris Wolfson has sizable accounts at Bear, Stearns. He was also a big player in Baron's house stocks. And Wolfson Investment had bought $400,000 worth of A.R. Baron's privately issued convertible preferred stock. As a special client of Baron he would be entitled to allotments of hot issues before the suckers were invited in.

Bressman told people that the Wolfsons asked Harriton to take on Baron as a clearing firm again. Bressman told people that Harriton asked the Wolfsons if the family would guarantee the firm. The family declined, but Harriton took Baron back anyway.

Morris Wolfson, 38, is infamous as co-owner of a Harlem apartment building that collapsed in 1994, killing three people. Wolfson was not found liable for the deaths.

But Wolfson was not Harriton's only tie to the Baron firm. After taking Baron back into the Bear, Stearns fold, Harriton introduced Bressman to Harriton's pal, barred manipulator Randolph Pace. Bear, recall, cleared for Rooney, Pace before it went out of business in 1987. Pace didn't return a reporter's phone call seeking comment.

Harriton apparently isn't discriminating when it comes to picking friends. Baron's president, Andrew Bressman, has also been chummy with Harriton. Bressman has dined often with the Bear managing director, taking him to New York Knicks basketball games, where Bressman's front row seats let him and his guests rub shoulders with celebrities like film director Spike Lee.

A person intimately familiar with the clearing business at Bear, Stearns tells FORBES that more than favors were involved. The source insisted on strict anonymity but is clearly knowledgeable about the situation.

Here, according to the source, is what happens: A bucket shop that clears through Bear has a hot underwriting in the works. On the day the stock begins trading, as many units or shares as are needed to generate a $100,000 profit are placed in a so-called nominee account at another brokerage firm. A nominee account is an account that carries a fictitious name. Our source charges that Harriton was the beneficiary of trades of this sort.

A. R. Baron was not the only sleazy outfit to clear through Bear, Stearns. Another Bear, Stearns clearing customer is Sterling Foster, the penny-stock outfit that the NASD sued for $53 million in a fraud case last fall. A company that Sterling Foster brought public last year, called Embryo

Development Corp., lists Matthew L. Harriton, 31, as its chief financial officer. He is said to be Richard's son.

The last hot stock underwriting sponsored by A.R. Baron came on Aug. 9, 1995: 1.8 million shares at $5 in a company called PaperClip Imaging Software, Inc. Like most hot Baron issues, PaperClip rose on its first day of trading, to almost $8. Those in on the offering who sold before the close of trading reaped handsome gains.

Normally, with this kind of offering, the first allotments go to favored customers and insiders. But with PaperClip, large numbers of the shares were assigned not to the clients who had been promised them, but to overseas entities-suspected to be nominee accounts.

The presumption is that Baron insiders and their friends were the real owners. An obvious manipulation, PaperClip is now trading at less than 50 cents.

FORBES gave Bear, Stearns plenty of time to respond to our allegations. Bear, Stearns' only comment was: "Pending litigation prevents us from commenting."

The whole situation stinks.

illustration photograph chart

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Bear Stearns Inquiry Gets Wider Scope --- Probe Studies Activity Of Executive's Son
By John R. Emshwiller
Staff Reporter of The Wall Street Journal
1103 words
26 August 1997
The Wall Street Journal
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C1
English

The Manhattan District Attorney's investigation of Bear Stearns Cos.'s securities-clearing operations has expanded to include the business activities of Matthew Harriton, the son of senior Bear Stearns executive Richard Harriton, according to an individual familiar with the inquiry.

As reported, federal and state authorities are investigating the Bear Stearns operation that clears, or processes, trades for other brokerage firms. The investigators are looking at whether Bear Stearns has any legal liability for the allegedly fraudulent activities of some of those brokerage customers. Bear Stearns has denied wrongdoing in its clearing operations, which are the nation's largest.

Now, investigators also are examining the younger Mr. Harriton's participation in several small public companies over the past two years, in conjunction with Randolph K. Pace, who regulators suspended for alleged stock manipulation in 1988 from association with any NASD member for two years. In several small companies where the 33-year-old Mr. Harriton had a role, records show that Mr. Pace or an entity in which he had an interest was an investor or lender.

Investigators are looking into whether Mr. Pace and associates granted business favors -- such as the opportunity to buy bargain-priced stock -- to the younger Mr. Harriton as part of an effort to get Bear Stearns, through the elder Mr. Harriton, to clear trades by two brokerage firms that have been charged by authorities with misconduct, said the person.

Separately, securities-industry regulators have expressed concern about financing activity involving Mr. Pace and the younger Mr. Harriton. According to a registration statement filed with the Securities and Exchange Commission by one of the small companies, regulators felt that the two men and others might reap unfair profits through a lending arrangement with the firm, Sportstrac Inc. A spokesman for Sportstrac, an Englewood, Colo., maker of athletic equipment, said the company believes the lending arrangement was fair.

Matthew Harriton declined to be interviewed. The elder Mr. Harriton referred questions to Bear Stearns's public-relations office. A Bear Stearns spokeswoman said: "After a thorough internal investigation Bear Stearns has concluded unequivocally that there is absolutely no evidence of any improprieties on the part of Mr. [Richard] Harriton or Bear Stearns in the operations of its correspondent-clearing department. We will continue to cooperate with the authorities until all these types of unsubstantiated allegations from anonymous sources of improper conduct are proven baseless."

Manhattan District Attorney Robert Morgenthau had no comment. A lawyer for Mr. Pace said he would have no comment, but that Mr. Pace had done nothing wrong.

Bear Stearns's clearing operation is at the center of the probe by the district attorney's office, as well as a separate SEC inquiry. Bear Stearns's clearing operations are headed by the elder Mr. Harriton, who also is a member of the firm's board. As the nation's largest clearing broker, Bear Stearns executes trades and handles client records for more than 2,000 other securities firms.

One Bear Stearns clearing relationship that is drawing scrutiny was with now-defunct A.R. Baron & Co. In a still-pending case, Baron and several former officials have been indicted in state court in Manhattan on stock-fraud charges. The company and most of the individuals have pleaded not guilty.

Bear Stearns's clearing relationship with Sterling Foster & Co. also is being investigated, a person familiar with the situation says. Sterling Foster is a defendant in separate, pending enforcement actions filed by the SEC and the National Association of Securities Dealers alleging that it misappropriated more than $50 million from investors by rigging the stock price of several small companies that the brokerage firm helped take public. Sterling Foster has denied wrongdoing. The younger Mr. Harriton hasn't been connected to either Baron or Sterling Foster.

A former Bear Stearns clearing client was Rooney, Pace Inc., Mr. Pace's now-defunct brokerage firm that was expelled from the securities business in 1988. According to the NASD's complaint against Sterling Foster, two entities owned by Mr. Pace and family members sold stock to the brokerage firm in two small public companies that were part of the manipulation. One of those companies was Embryo Development Corp., a New York City medical-device company.

According to the current annual report filed with the SEC by Embryo, the younger Mr. Harriton was named the company's chief financial officer in January 1996 and Randolph K. Pace was hired as a consultant a month later. Sterling Foster's alleged Embryo stock manipulation occurred between November 1995 and February 1996, according to the NASD and SEC complaints.

In April, Mr. Harriton was named Embryo's chief executive officer and holds options on stock in the company. The same annual report describes Embryo as a "development stage" company that "has not derived any significant revenues since its inception" in March 1995. Neither Embryo nor Messrs. Pace and Harriton were named as defendants in the NASD or SEC actions.

At Perry's Majestic Beer Inc., a Brooklyn, N.Y., beer distributor, Mr. Harriton was named a director in January 1996. That same month, according to a Perry's SEC filing, he and six others bought 2.5 million Perry's shares for $50,000, or two cents each. Mr. Harriton received 50,000 shares while a Judith Pace -- which is the name of Mr. Pace's wife -- bought 120,000.

In July of last year, Perry's went public at $6 a share and registered those 2.5 million shares for sale. At the initial offering price, the profit on those shares would have been nearly $15 million -- a 300-fold return in just seven months. The company's shares currently trade at about $1 on the OTC Bulletin Board.

Perry's was turned down when it applied for a listing on the Nasdaq's more prestigious and widely traded SmallCap market. A company SEC filing said that Nasdaq officials were concerned, in part, about a $150,000 "bridge loan," or temporary financing, that Perry's had received from a group that included Dune Holdings Inc., which has been indentified as one of Mr. Pace's investment entities. Calls to Perry's weren't returned.

Regulators have expressed concerns about so-called bridge financings where companies borrow money before going public and often give the lenders equity as part of the deal. While such arrangements can be perfectly legitimate, regulators say they are sometimes used to unfairly enrich insiders.

Small Stock Focus
NASD Quietly Takes Aim At IPO Bridge-Loan Trend
By John R. Emshwiller
Staff Reporter of The Wall Street Journal
1012 words
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C1
English

The National Association of Securities Dealers is quietly waging a campaign to dismantle some bridges in the securities market.

The targets are "bridge" loans made to small companies shortly before the firms make an initial public stock offering. Bridge loans have long been a perfectly legitimate business-financing tool. A company borrows money temporarily to bridge the period until it arranges a more permanent source of funding, such as a stock offering. Often, the lenders are given shares in the company as an added inducement.

Officials of the NASD, which runs the Nasdaq Stock Market and helps regulate the securities industry, say they have been focusing on cases when relatively small loans are made for short periods of time in return for huge payoffs of stock that are often quickly unloaded on the public. Returns of as much as 3,000% have been realized within 60 days of the loan, NASD officials say. Such outsize gains are "contrary to what we want to promote from an investor-protection point of view," says Perry Peregoy, a senior NASD official.

Over the past two years, the NASD has denied more than a dozen companies a listing on the Nasdaq market at least partly because of concerns over bridge-financing deals. As a result, the stock of several such companies, including Decor Group Inc., a vendor of metal sculptures based in Mount Vernon, N.Y., has been relegated to the less widely followed electronic OTC Bulletin Board run by Nasdaq.

Decor Group Chairman Max Munn says the bridge lenders did make an "enormous amount of money but they also took enormous risk." He says his company's stock would probably get "more investor interest" if it was on Nasdaq.

In a smaller number of cases, the NASD has gone further by holding up the public offering altogether. One such situation involves Sportstrac Inc., a tiny Englewood, Colo., sports-equipment company.

In late 1995 and early 1996, the company borrowed $400,000 from a group of 10 bridge lenders. The money was to be partly used to pay the expenses of a planned IPO, according to Sportstrac filings with the Securities and Exchange Commission. At the time of the borrowing, "no other sources of financing were available," says one filing.

The Sportstrac bridge deal was a potentially rich one for the lenders. Besides promising to repay the bridge loan with interest, Sportstrac granted the lenders 400,000 shares of stock and warrants to buy an additional two million shares at $6 a share. In May 1996, a few months after completing its bridge loan, Sportstrac filed a registration statement with the SEC for an offering of 1.15 million shares at $5 each. Based on that offering price, the bridge lenders' 400,000 shares of stock could have fetched them a $2 million profit.

Nearly two years later, however, the NASD is still standing in the way of Sportstrac going public. A Sportstrac filing with the SEC says the NASD objects to the "extraordinary" gain the lenders could reap "to the detriment" of public investors.

Sportstrac's President Marc Silverman says he believes the lending arrangement was proper and that his company hopes to clear up soon the NASD's objections to the offering. An NASD spokesman says the organization can't comment on specific cases, such as Sportstrac.

A central figure in the Sportstrac bridge deal is Burton W. Kanter, a Chicago tax lawyer, who heads an entity that supplied $65,000 of the loan. Mr. Kanter says he introduced the bridge deal to his friend, New York Congressman John LaFalce, who a senior Democrat on the House banking and financial services committee. Mr. LaFalce contributed $10,000 to the bridge loan. A spokesman for Mr. LaFalce confirms that referral came through Mr. Kanter and says that the congressman believes the Sportstrac investment is proper.

Mr. Kanter says he also brought in Randolph K. Pace, the former head of the now-defunct brokerage firm of Rooney, Pace Inc. In 1988, Mr. Pace was suspended from association with any NASD member for alleged stock manipulation. Through an attorney, Mr. Pace declined to be interviewed.

Sportstrac's initial underwriter for the public offering was Sterling Foster & Co. Sportstrac's Mr. Silverman recalls that the introduction to the brokerage firm came through Mr. Pace.

Sterling Foster went out of business last year after it was charged in enforcement actions by the NASD and SEC with misappropriating more than $50 million from investors in connection with the initial public offerings of several small companies. The brokerage firm had denied wrongdoing.

Entities connected to Mr. Pace and the Kanter family appeared in the NASD complaint as having supplied stock used by Sterling Foster in the alleged manipulations. Those entities weren't named as defendants. Mr. Kanter says that while family members of his were beneficiaries of a trust that owns one entity, they had no control over its activities.

Regarding Sportstrac, Mr. Kanter says he and his fellow bridge lenders have reluctantly agreed to give up their equity stake in the company, if necessary. A similar course seems to have been taken last year by Superior Supplements Inc., a Hauppauge, N.Y. dietary-supplement firm. In order "to expedite NASD approval" of its IPO, Superior Supplements repaid the bridge loan, and its lenders gave up their stock warrants, says a company SEC filing. The company subsequently made its public offering and its stock began trading on the Bulletin Board. Officials at Superior Supplements didn't return phone calls.

Mr. Kanter and others in the bridge-lending business assert that the NASD crackdown threatens the ability of small companies to raise needed funds. The NASD seems to be trying to "eliminate" bridge loans, says Mr. Kanter.

NASD officials counter that they are simply engendering a much needed cleanup. In recent offerings, "we've seen a migration away" from the "abusive" type of bridge financings, says Mr. Peregoy.

Former Owner Of Rooney Pace Indicted in Fraud
By Frances A. McMorris
Staff Reporter of The Wall Street Journal
655 words
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English

NEW YORK -- The former owner of Rooney Pace Inc. was indicted on charges he masterminded a $100 million fraud scheme by small-stock brokerage firm Sterling Foster & Co. by manipulating initial public offerings.

Federal prosecutors contend that Randolph Pace, 53 years old, secretly controlled Sterling Foster, a now-defunct Melville, N.Y., brokerage firm, and charged him with securities fraud, conspiracy and making false statements. The 15-count indictment also charged the company's former lawyer, Alan Novich, who was once a dentist, as one of Mr. Pace's co-conspirators. Both men were released yesterday on bail.

U.S. Attorney Mary Jo White said the case is significant not only because of its size and complexity but because it involves Mr. Pace, who previously had been disciplined by securities regulators.

Mr. Pace's lawyer, Robert Morvillo, said his client intends to plead not guilty. Mr. Novich's lawyer, Henry Putzel III, couldn't be reached to comment.

Messrs. Pace and Novich allegedly defrauded investors who bought securities as part of six fraudulent intial public offerings. Prosecutors allege that the two men secretly assisted Sterling Foster's former president, Adam Lieberman, in establishing Sterling as a broker-dealer by securing capital for it and obtaining a securities clearing agreement with Bear Stearns Securities Corp.

In exchange, Mr. Pace allegedly received some of Sterling Foster's net profits and control over its business activities, including dictating which public offerings Sterling Foster would underwrite, the terms and conditions, and the amount of compensation to be received by Mr. Lieberman.

The secrecy was necessary because, when the Sterling Foster scheme allegedly began in 1994, Mr. Pace was under a suspension by the National Association of Securities Dealers from acting as a principal with any NASD firm, prosecutors said.

Mr. Pace had also been suspended for three months in 1986 for allegedly making fraudulent statements in an underwriting and was suspended for nine months in 1987 for market manipulation. In 1983, he was censured by the Securities and Exchange Commission for allegedly failing to supervise a representative who participated in a stock manipulation scheme. Rooney Pace was expelled from the securities industry in 1988.

Messrs. Pace and Novich each face more than 100 years in prison plus fines, Ms. White said. The investigation is continuing.

Prosecutors also said that Mr. Lieberman and two other people who were involved in the scheme pleaded guilty earlier this year: Michael Krasnoff, the former president and chief executive of PDK Labs Inc. and Michael Lulkin, PDK's general counsel and former chairman of Embryo Development Corp. They have agreed to pay collectively $32 million in restitution to the government.

The six companies whose IPOs were allegedly manipulated by Sterling Foster included: Embryo Development, Lasergate Systems Inc., Advanced Voice Technologies Inc., Come/Tech Communication Technologies, Applewoods Inc., and ML Direct Inc.

New York state investigators have been interested in the relationship between Mr. Pace and Matthew Harriton, the son of Bear Stearns senior executive Richard Harriton, according to one person familiar with the matter. One question has been whether Mr. Pace and some associates granted business favors to the younger Mr. Harriton as part of an effort to get Bear Stearns, through the elder Mr. Harriton, to clear trades for Sterling Foster.

In early 1996, the younger Mr. Harriton was named chief financial officer of Embryo Development, a few months after its initial public offering. He was later named president and chief executive, positions he still holds according to recent company filings with the Securities and Exchange Commission.

Matthew Harriton declined to comment. Neither Richard Harriton nor Bear Stearns could be reached for comment yesterday.

In the past, Bear Stearns has said it investigated Richard Harriton's conduct and didn't find any improprieties.

John R. Emshwiller in Los Angeles contributed to this article.

Business/Financial Desk; Section C
Testimony Implicates Bear Stearns
By GRETCHEN MORGENSON
873 words
30 January 1999
The New York Times
NYTF
Page 1, Column 5
English

In court documents filed last week in United States District Court in Manhattan, a former executive of the Bear Stearns Companies describes the role the firm played in the violations of Federal securities laws committed by a small brokerage firm.

The testimony in the civil case, involving Sterling Foster, a New York brokerage firm that failed in 1997, provides a glimpse of what law enforcement officials are examining as they investigate the Bear Stearns role in the failures of Sterling Foster and another brokerage firm, A. R. Baron.

The Bear Stearns clearing unit is the subject of continuing investigation by the Manhattan District Attorney's office, the United States Attorney for for the Southern District of New York and the Securities and Exchange Commission.

Asked about the testimony, Bear Stearns declined to comment. The company has denied wrongdoing in its clearing business. Sterling Foster and its president, Adam Lieberman, agreed to pay $11.5 million in an S.E.C. settlement last fall without admitting or denying wrongdoing. A spokesman for the United States Attorney has said that office is continuing its investigation of Sterling Foster. In the A. R. Baron case, 14 of the firm's executives were convicted of securities fraud by the office of Robert M. Morgenthau, the Manhattan District Attorney. In all, public customers of the firm lost $75 million when it failed.

The new case is being brought against Bear Stearns by Howard Greenberg, a customer of Sterling Foster who lost $500,000 in his dealings with the firm. Mr. Greenberg's complaint was first filed as an arbitration case before the National Association of Securities Dealers. But the N.A.S.D. panel dismissed it on Nov. 20. Mr. Greenberg's lawyer, Leslie Trager, has filed a motion to overturn the arbitration's dismissal in District Court.

Lawyers in the Greenberg case took testimony from Keith Brigley, who was an associate director at the Bear Stearns Clearing Corporation for seven years until last year. Mr. Brigley reported to Peter Murphy, second in command in the clearing unit, headed by Richard Harriton.

In his testimony, Mr. Brigley described behind-the-scenes dealings that took place between Bear Stearns and Mr. Lieberman of Sterling Foster surrounding an initial public offering of $7.2 million in common stock and warrants in ML Direct Inc., a marketing concern.

The offering took place in September 1996. According to court documents, Sterling Foster aggressively sold ML Direct stock to its customers as soon as trading in the new issue began. Sterling Foster sold twice what was offered in the initial public offering.

This created what is known as a short position in the shares of ML Direct on Sterling Foster's books, since the firm could not come up with enough shares to cover what it had sold in the open market. Such a position could create a huge problem for the firm that clears the stock trades if the share price shoots up and it must buy shares at a higher market price. That firm was Bear Stearns.

According to Mr. Brigley's testimony, when Mr. Lieberman of Sterling Foster was asked how this potential liability would be covered, he assured Mr. Brigley that an additional 2.3 million shares would be delivered to Bear Stearns from insiders who were selling their own shares of ML Direct stock. In Wall Street parlance, these people are called selling shareholders.

But page 2 of the ML Direct prospectus stated that selling shareholders had agreed to refrain from selling any shares for 12 months, an arrangement commonly known as a lockup. Bear Stearns's executives had copies of this prospectus. Mr. Brigley says in his testimony that he does not recall reading the lockup provision in the prospectus.

Mr. Trager, the lawyer in the case, says Bear Stearns executives are held by law to have read the prospectus. "The evidence showed that as a matter of law and fact, Bear Stearns knew of the material misrepresentation in the prospectus," Mr. Trager said. "For it to clear what they knew was a fraudulent transaction creates a liability against them and it is rather surprising that they would do such a transaction." Securities laws broadly state that it is unlawful for any person to employ any device, scheme or artifice to defraud.

What the testimony describes in the ML Direct offering parallels descriptions of five other Sterling Foster offerings that were included in an indictment of Randolph Pace, former owner of the defunct broker Rooney Pace, by the United States Attorney last November. In all those offerings, which were underwritten by Sterling Foster, the United States Attorney contends that insiders had publicly stated that they would lock up their shares. In reality, according to the indictment, the selling shareholders had a secret agreement with the underwriter to sell shares during the initial offering. Mr. Pace has denied wrongdoing in the matter.

Neither the Manhattan District Attorney nor the United States Attorney would comment on Mr. Brigley's testimony. Rob Khuzami, chief of the securities fraud unit at the United States Attorney's office, said, "We are continuing our investigation in all of its various aspects."

Bernstein Pleads Guilty in Securities-Fraud Case
By Frances A. McMorris
Staff Reporter of The Wall Street Journal
668 words
28 May 1999
The Wall Street Journal
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B2
English

NEW YORK -- Hartley T. Bernstein, a lawyer who built his practice by representing penny-stock brokerage firms that had regulatory run-ins, pleaded guilty to conspiring to commit securities fraud in connection with several initial public offerings allegedly manipulated by one of his clients, now-defunct Sterling Foster & Co.

As part of his plea, Mr. Bernstein also entered into a cooperation agreement with the government, which has charged two of his former clients, Randolph Pace and Alan Novich, with secretly controlling Sterling Foster. Messrs. Pace and Novich were indicted in November for obtaining more than $100 million in illicit profits through six allegedly fraudulent stock offerings.

At a hearing in federal court here yesterday, Mr. Bernstein, 49 years old, who began his career championing the rights of small investors, admitted to participating in a scheme to fraudulently manipulate five IPOs, four of which were underwritten by Sterling Foster, formerly of Melville, N.Y.

He said he received stakes in Advanced Voice Technologies Inc., Com/Tech Communication Technologies Inc., Embryo Development Corp. and Applewoods Inc. before their IPOs. He explained he was part of a group of "affiliated investors" who made loans to the companies in exchange for stock.

The investors then sold back their stock to Sterling Foster in a prearranged stock-manipulation scheme that allowed the brokerage firm to control trading, artificially inflate prices -- and enrich itself and the affiliated investors, prosecutors said. Mr. Bernstein admitted he knew the existence of his arrangement should have been disclosed to investors and regulators.

Mr. Bernstein told the court Mr. Pace introduced him to several clients, including Adam Lieberman, the president of Sterling Foster. In the case of the four IPOs, he said he was "invited" to be a lender in exchange for stock in the companies and the promise that his loan would be repaid in its entirety. "I was advised by Mr. Pace that I would be expected to sell my shares immediately after the [initial public] offering," Mr. Bernstein told U.S. District Judge John E. Sprizzo.

Mr. Bernstein also pleaded guilty to a second count of conspiracy to commit securities fraud in connection with a similar scheme involving the IPO of Perry's Majestic Beer Inc. That IPO was also arranged through Mr. Pace but was underwritten by VTR Capital Inc. and Investor Associates Inc.

Mr. Bernstein pleaded guilty to a perjury count in connection with statements he made to the Securities and Exchange Commission last year about whether there were any secret agreements in connection with the Perry's Majestic deal.

Mr. Pace's lawyer, Robert Morvillo, said he couldn't comment on how Mr. Bernstein's cooperation agreement would affect Mr. Pace's criminal case. "I do not know what Mr. Bernstein is saying with respect to Mr. Pace," he said.

Mr. Novich's lawyer, Henry Putzel III, said he hasn't seen Mr. Bernstein's plea agreement. But, he added that his client "continues to assert his innocence and expects to go to trial."

Federal prosecutors allege Messrs. Pace and Novich secretly assisted Sterling Foster by securing capital for the firm and obtaining a securities-clearing agreement with Bear Stearns Securities Corp. Mr. Pace, in return, received some of Sterling Foster's profits and control over its business activities, prosecutors say. The secrecy was necessary because, when the Sterling Foster scheme allegedly began in 1994, Mr. Pace was under a suspension by the National Association of Securities Dealers from acting as a principal with any NASD firm.

Mr. Bernstein, of Armonk, N.Y., faces up to 15 years in prison and fines of at least $250,000.

In a separate civil case brought yesterday by the SEC in federal court here, Mr. Bernstein consented to an injunction prohibiting him from committing securities fraud and ordering him to pay a $40,000 civil penalty, said Andrew Geist, an associate regional director of the SEC.

Defunct Sterling Foster, 2 Other Firms Are Indicted for Alleged IPO Fraud
By Frances A. McMorris
Staff Reporter of The Wall Street Journal
753 words
3 September 1999
The Wall Street Journal
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B6
English

NEW YORK -- Sterling Foster & Co., a defunct brokerage firm, was indicted here along with two other broker-dealers on charges of manipulating 11 initial public offerings in a $200 million microcap-securities fraud scheme.

The indictment, which adds new charges and individuals to a case brought last November by the U.S. attorney here, describes a far more extensive securities-fraud scheme allegedly masterminded by Randolph Pace. In last year's indictment, Mr. Pace, former owner of defunct brokerage firm Rooney Pace Inc., and Alan Novich, a former lawyer for Sterling Foster, were charged with conspiracy, securities fraud and making false statements in connection with six Sterling Foster public offerings in a $100 million fraud scheme.

In addition to Sterling Foster, which was based in Melville, N.Y., the indictment names as defendants VTR Capital Inc. and Investors Associates Inc. Those two firms allegedly were involved in the manipulation of five of the 11 public stock offerings. VTR is incorporated in Colorado and has offices in a handful of states, including New York; Investors Associates is based in Hackensack, N.J.

Five more individuals were named as defendants connected to some of the offerings, including Warren Schreiber, a VTR representative; Vincent Grieco, who comanaged the office of Investors Associates; Judah Wernick, a principal of another broker-dealer; Robert Landau, charged in connection with the offerings; and Nancy Shalek, the chairman of three of the companies in the offerings.

Mr. Landau's lawyer, in open court, said that his client denied the charges. Mr. Grieco's lawyer said it would be "inappropriate to comment" because he hadn't seen the charges. The other defendants couldn't be reached for comment.

Three other individuals were named in lengthy charges called criminal informations, which can be, but are not always, precursors to guilty pleas: Lawrence Penna, former president and chief executive officer of Investors Associates; Herman Epstein, its former compliance director, and Douglas Mangan, a former supervisor there.

The charges outlined the three men and others in the scheme. Mr. Penna and Mr. Epstein couldn't be reached for comment, nor could their lawyers.

Messrs. Penna, Epstein and Mangan also were named in a separate civil complaint filed by the Securities and Exchange Commission in federal court in Manhattan, and settled those charges. Mr. Mangan was described by the SEC as the co-owner of the largest, most active and profitable office of Investors Associates. That office, also located in Melville, N.Y., generated at least $10 million of the $33 million in illegal profits Investors Associates allegedly made, the SEC said. The Melville office employed more than 300 cold callers in a boiler-room operation, the SEC alleged in its complaint. Mr. Mangan allegedly had his brokers recruit recent college graduates they met in bars to become cold callers.

Mr. Mangan's lawyer, Herbert Jacobi, said his client has "reached an understanding with the SEC" and that he expects Mr. Mangan to plead guilty to a criminal charge. He wouldn't say if Mr. Mangan is cooperating with federal prosecutors.

This latest indictment came as "no surprise" to Mr. Pace, said his lawyer, Robert Morvillo. That is because about three months ago, Mr. Pace's former securities-offering lawyer, Hartley T. Bernstein, pleaded guilty to related charges of conspiracy to commit securities fraud. Mr. Morvillo says that Mr. Pace will plead not guilty and will "contest the new charges as well."

U.S. Attorney Mary Jo White said that Mr. Pace "allegedly concealed his control of these offerings from regulators and the investing public, and then allegedly utilized secret agreements and understandings with 'front' men and nominees to reap approximately $200 million in illegal profits for himself and his co-conspirators."

Mr. Bernstein entered into a cooperation agreement with the government. At a hearing in May, he admitted to participating in the alleged scheme to fraudulently manipulate five IPOs, four of which were underwritten by Sterling Foster. He also pleaded guilty to charges that have now surfaced in the new indictment. They relate to the IPO of Perry's Majestic Beer Inc., which was allegedly arranged through Mr. Pace but was underwritten by VTR Capital and Investors Associates.

Six other individuals previously pleaded guilty to charges relating to their involvement in the scheme and have agreed to forfeit or disgorge approximately $32 million in ill-gotten gains to the government.

SEC Uncovers Widespread Wrongdoing at Bear Stearns Clearing Corp.
Dan Jamieson with Michael Hayes
463 words
30 October 1999
Registered Representative
REGP
English

In August, the SEC and the New York County District Attorney's Office fined Bear Stearns 35 million dollars over the firm's role in clearing for defunct penny stock firm A.R. Baron. Bear Stearns settled without admitting guilt in the allegations of aiding and abetting A.R. Baron's fraud.

A.R. Baron was shut down in 1996 and its former President Andrew Bressman pled guilty to enterprise corruption and grand larceny in 1997. The New York County D.A.'s office had accused A.R. Baron of bilking investors of 75 million dollars.

Also in August, the SEC accused former Bear Stearns Clearing Corp. President Richard Harriton of playing a major role the A.R. Baron fraud. Harriton is contesting the charges.

The SEC claims Bear Stearn's relationship with A.R. Baron went "well beyond" a normal clearing arrangement and that Bear Stearns was involved "deeply in Baron's operations." Problems with A.R. Baron's business were numerous and well-known within Bear's clearing unit. For example, 80 percent of trades made near the close failed to settle--a strong indication of unauthorized trading. And Bear Stearns received up to 10 A.R. Baron customer complaints a day.

Bear's clearing staff on numerous occasions tried to end the association, the SEC says. But Harriton repeatedly took steps to keep Baron going, including charging Baron customers for trades he knew to be unauthorized, and extending credit to the correspondent firm when it faced net capital shortfalls. In fact, Harriton in 1995 twice called the NASD in an effort to keep A.R. Baron open, the SEC alleges.

The SEC's charging document against Harriton claims that Bressman offered him shares in A.R. Baron IPOs as an inducement to clear for the firm. Harriton allegedly told Bressman to contact Randolph Pace, former principal of penny stock firm Rooney Pace (also a former Bear Stearns clearing customer), to set up a nominee account. The SEC accuses Pace and Bressman of conspiring to "siphon profits from a planned Baron IPO for themselves and Harriton."

In a statement, Bear Stearns says, "On the most serious charges, [the firm] was technically 'a cause' of Baron's fraud on a negligence-based standard. Settling on this basis was in the company's best interest."

Harriton resigned from the firm when the settlement was announced. Richard Lindsey, who in March left his post as director of the SEC's division of market regulation to fill a newly created No. 2 spot at Bear Stearns Clearing Corp., was named co-president of the clearing unit. He shares duties with Michael Minikes, formerly senior managing director and treasurer of Bear Stearns.

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Killings hint at a grisly message - Autopsy details the shootings of stock promoters in mansion
Josh Margolin and John T. Ward
Star-Ledger Staff
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10 November 1999
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If someone was trying to send a message with the murders of two stock promoters in a Colts Neck mansion two weeks ago, it was a particularly gruesome one.

Alain Chalem, 41, was shot once in each eye, once in each ear and once in the mouth, according to an investigator who has seen the autopsy report, which has not been made public.

"That's message stuff," said Howard Abadinsky, an expert on organized crime in Chicago.

"Someone heard too much, saw too much and spoke too much. You don't kill a person with five shots to the head. Obviously, someone had a bit of a poet in them," he said.

The other victim, Maier S. Lehmann, 37, was shot once in the leg, apparently while seated, and three times in the head. He is believed to have been shot first. At least two guns were used, according to prosecutors.

Lehmann and Chalem, said by prosecutors to have been partners in an Internet-based stock- promotion Web site, were found sprawled on the marble dining-room floor of a house at 3 Bluebell Lane in the early morning of Oct. 26. Chalem lived in the house with his girlfriend, who was not home at the time, police said. Lehmann lived in Woodmere, N.Y.

Two weeks after the murders, police have made no arrests and have not named any suspects.

The case remains a mystery, officials acknowledge, despite a marshaling of investigative resources rarely seen in Monmouth County.

"It's one of the largest commitments of manpower we've had in the prosecutor's office," said Robert Honecker Jr., the second assistant prosecutor. Working on the probe, he said, are 20 investigators from the county's major crimes unit, the economic crimes unit, forensics and the computer crimes section.

State and local police as well as the FBI, the federal Securities and Exchange Commission and the Manhattan District Attorney's Office also are involved.

Investigators in the Colts Neck case still haven't sorted out which man, if either, was the primary target, said Honecker.

"One day it's Chalem, one day it's Maier Lehmann. Who knows?" said Honecker. "At this point, it's premature to say that one was a target more than the other."

The complexity of the case - and the various interpretations of its meaning - can be seen in the fact that another investigator says he is not convinced that the pattern of Chalem's wounds add up to a message.

The wounds may have been inflicted randomly as Chalem was on the floor, trying to escape his killer, said that investigator, who also asked not to be identified. According to this source, the wounds were not dead center, but were near Chalem's eyes and ears.

As recounted by the source, Chalem was seated and had reached for a cell phone when the first shot was fired, smashing through the phone and knocking him to the floor. As he tried to crawl out of the room, the killer or killers apparently came around the table and fired again and again.

Complicating the case, authorities acknowledge, are the pair's murky business dealings. Each had crossed paths with players in some of the biggest penny-stock fraud cases in recent years, and Lehmann had settled a stock fraud case with the federal Securities and Exchange Commission.

Lehmann was also an informant, implicating brokerage firms and individuals who authorities say amassed hundreds of millions of dollars in illegal profits.

Whether either man or both were targeted because they were informing on others is an open question, said Honecker.

"No one's been excluded yet, and there's a lot of leads to run down," he said.

In recent days, stock market watchdogs and a Wall Street publication have described Lehmann as a voluntary witness against individuals now under indictment for a variety of penny-stock frauds.

In one case, Lehmann's information was about employees of the now-indicted firm of A.S. Goldmen, based in Naples, Fla., although there is no record he had worked for the firm, which had an office in Woodbridge. The firm and 33 officers, brokers and their spouses are under indictment for stock fraud in New York. The frauds netted $100 million in illegal profits, prosecutors allege.

Chalem had been an employee at Goldmen, but was not charged with any wrongdoing and had no record of disciplinary problems on file at the market regulating National Association of Securities Dealers.

None of the sources interviewed for this article had ever heard of Chalem as an informant.

Lehmann also implicated other unidentified individuals already under investigation for a complex web of stock-manipulation schemes, according to an official at the New Jersey Bureau of Securities who spoke on the condition of anonymity.

Those individuals were said to be associates of Robert E. Brennan, the discredited founder of First Jersey Securities, but Brennan was not the object of Lehmann's information, the source said.

Lehmann approached the bureau "because of some IPO (initial public offering of stock) one of the principals screwed him out of, and he wanted to get even," according to the source.

Lehmann's cooperation was not necessarily crucial to the probes, another bureau official said. "As an investigator, you cultivate a lot of sources, and Lehmann was a source," he said. "He might not have been able to give first-hand information about deals, but he could add to the picture."

A story appearing in the current issue of Barron's supports the claim that Lehmann was peddling information and that he was motivated by revenge. The paper reported that Lehmann met with journalists at the financial publication in late 1997 to implicate one person in particular.

"Lehmann's main goal seemed to be to interest prosecutors and reporters in the financial dealings of one of his former business associates, Judah L. Wernick," Barron's reported. "Lehmann felt that he was owed money by Wernick and admitted that grudge upfront."

Lehmann's assertion, Barron's reported, was that Wernick was "the latest in a long line of front men" for Brennan.

Wernick, 37, could not be reached for comment. A woman who answered the phone at his Woodmere, N.Y., home said she was referring inquiries to her lawyer, whose name she did not have at hand. She identified herself as "the baby sitter." In response to a later call, the woman said that Wernick would have no comment.

Wernick and Lehmann lived just blocks apart in Woodmere, and worked together at the Manhattan brokerage of Patterson-Travis, often commuting together, according to Barron's. Wernick was listed in SEC filings as the firm's office manager. No information was available about Lehmann's role.

A former federal prosecutor in New York said Lehmann made the rounds among law enforcement agencies two years ago, offering evidence of wrongdoing by Patterson-Travis.

"The degree of information he was providing was so detailed that he was obviously right in the middle of the criminal conduct, even though he denied it," the former prosecutor said.

Wernick and six others are currently under federal indictment in New York for their purported roles in a stock scam that authorities contend was secretly run by Randolph Pace, the head of another shuttered brokerage firm, Rooney Pace. All have denied the charges. Three officials at a defunct brokerage, Investors Associates of Hackensack, have pleaded guilty in the alleged scheme, which prosecutors allege netted $200 million.

Brennan was sued by the Bureau of Securities in 1995 over an alleged $300 million worth of illegal stock dealings he was alleged to have masterminded. In June, Brennan settled the lawsuit by agreeing to pay the state $100 million, though he continues to deny any wrongdoing and is bankrupt.

Brennan could not be reached for comment. But he told Barron's that it is "preposterous and absurd" that Wernick was fronting for him in deals.

Court documents filed in 1992 as part of the state's probe of Brennan, however, said Wernick "was materially involved in key transactions which appear to be part of the manipulation" that gave Brennan an alleged $70 million profit in trading on one stock.

Last week, a Chalem friend, Ada Garay-Logan of Clifton, told The Star-Ledger that, contrary to Monmouth County Prosecutor John Kaye's assertion that Chalem and Lehmann were partners in the Web site stockinvestor.com, "They were not business partners. The family is upset. They don't know and we don't know where you get that story from."

The Web site, which touted two small stocks, has since gone offline. And Stuart Bockler, an independent stock analyst in Marlboro, is threatening to sue whomever owned the site, which he said stole his research reports. Staff writers

Randolph Pace gets prison for massive fraud.
By Gail Appleson, Law Correspondent
436 words
26 April 2002
17:35
Reuters News
LBA
English

NEW YORK, April 26 (Reuters) - The former owner of defunct broker-dealer Rooney Pace & Co. was sentenced on Friday to over eight years in prison for orchestrating what prosecutors said was one of the largest fraud schemes in the history of the securities industry.

Randolph Pace, 56, of Manhattan was ordered to serve eight years and four months in prison and to pay almost $135 million in restitution to the more than 6,000 investors cheated in the schemes.

In sentencing Pace, U.S. District Judge Loretta Preska said he had shown "utter contempt for the regulatory system" and "incredible disregard for the investing public." She also pointed out that even before he launched the crimes in the current case, Pace had been sanctioned on five separate occasions by regulators for securities fraud.

For example, the Rooney Pace firm was forced out of the securities business in 1987 because of initial public offering fraud charges.

At the end of the sentencing hearing, Preska ordered that he immediately be taken to prison.

Pace had pleaded guilty in September 2000 to 13 counts of securities fraud and money laundering in connection with a $200 million dollar scheme at the now-defunct Melville, N.Y., penny-stock firm Sterling Foster & Co.

Pace had been indicted in 1998 for controlling Sterling Foster, which was forced out of business by a gamut of securities fraud charges ranging from unlawful sales practices to fraudulent public offerings.

The indictment grew out an expanding probe by federal and state authorities into abuses by broker-dealers who sell the stocks of small companies. In 1997 regulators from 20 states accused 14 brokerages - including Sterling Foster - of using fraudulent high-pressure telephone tactics to sell so-called "penny" or low-priced stocks.

Prosecutors said Pace masterminded the extensive schemes, which were carried out from 1994 through 1997, in which Sterling Foster, two other brokerages, and numerous individuals manipulated 11 initial public offerings.

According to the charges, Pace helped to recruit numerous accomplices including investors associated with Pace and securities industry professionals who controlled the broker-dealers through which millions of shares of worthless or near worthless securities were sold to the public.

Pace was barred from associating with any National Association of Securities Dealer member firms when Sterling Foster was created in 1994.

In 1996, the National Association of Securities Dealers filed an administrative complaint against Sterling Foster and 15 of its principals alleging they manipulated trading and used unlawful sales practices to generate huge illicit profits from three small stock offering.