

SECURITIES

Summer 2002

bulletin

Our country has become a nation of investors. More than ever before, people are investing in record numbers. Unfortunately, con artists also are setting records in the number of fraudulent practices perpetrated against investors.



The Securities Department's Enforcement Division actively investigates hundreds of investor complaints each year and vigorously pursues administrative actions and assists in numerous criminal prosecutions. However, the best line of defense against fraud is an educated, well-informed investor. April was national Savings and Investing Month, and the Securities Department joined many other organizations in sponsoring events promoting investor education.

My office is committed to continuing investor education throughout the year. I encourage you to take advantage of the Securities Department's resources, including free investment seminars, student programs, investor education presentations and printed materials, to help educate the public about investing. To schedule a seminar or to order materials, please call 800-628-7937 or the Spanish line at 888-231-1175.

Jesse White

Jesse White
Secretary of State

Conference focuses on fraud against the elderly

Prosecutors and law enforcement officers from throughout Illinois attended the Securities Enforcement Conference on April 26 at the James R. Thompson Center in Chicago. Among the attendees were representatives from five Illinois state agencies, the Illinois House Speaker's staff and the Senate Democratic staff, as well as representatives from six federal agencies, eight sheriff and state's attorney offices and the National Association of Securities Dealers.

Paul Greenwood, deputy district attorney from San Diego, CA was the keynote speaker. His remarks focused on working with elderly victims of financial fraud to bring about a conviction of the perpetrator. Greenwood drew upon his 200 plus cases in his nine years as head of the Elder Abuse Unit to give the audience a new perspective on cases involving the elderly. He noted that many law enforcement officers feel financial crimes are less heinous than crimes involving physical violence. His contention, however, is that when an elderly individual loses their life savings, it often "shortens" their life by leaving them depressed or even destitute. He encouraged conference participants to be passionate in bringing aggressive prosecution against financial fraud.

Securities Department Director Tanya Solov led a panel discussion on how to investigate, prepare and prosecute a fraud case. Joining her on the panel was Edward Carter, deputy attorney general of Illinois for Financial Fraud, and Gerald Paul, postal inspector for Central Illinois.

"I am very pleased with the success of this conference," said Secretary of State Jesse White. "The knowledge and expertise of these experienced professionals will help us do everything we can to protect the public from unscrupulous agents and make sure perpetrators are prosecuted to the fullest extent of the law."

The Securities Department is planning a follow-up conference next April.



Tanya Solov, director of the Illinois Securities Department, presents Paul Greenwood, deputy district attorney from San Diego, a personalized license plate as a gesture of thanks for participating in the Securities Enforcement Seminar in April.

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April busy month for Investor Education

Spring is a time of renewal, growth and planning for the future, as well as a time for paying our dues to Uncle Sam. What better time to take stock of our future financial plans than in the spring.

Secretary of State Jesse White and the Securities Department kicked off national Savings and Investing Month in April by participating in 23 events throughout the state to bring the "Facts on Saving and Investing" directly to the people of Illinois. Department staff presented a program on saving and money to children at the Carlinville Public Library, and high school business and consumer education classes from Antioch to Metropolis were treated to a one-hour presentation on Financial Literacy 2010.



INVESTOR EDUCATION

Participating teachers received a free copy of the teachers guide for the student investor education program. In addition, presentations on securities fraud were given at senior centers in the Southern Illinois communities of Anna, Metropolis, Elizabethtown and Vienna, and displays and booths were set up with free investor materials in the State Capitol rotunda and at various locations in Rock Island, Peoria, Chicago and Jerseyville.

The month culminated with department staff joining forces with the Federal Reserve Board in Chicago in giving two presentations at Chicago Public Library branches as part of the board's Money Smart Week activities.

For more information on the department's Investor Education programs, please call 800-628-7937.

Securities Department staff man an information booth at the Central Illinois Senior Celebration at the State Fairgrounds in Springfield.

New UCC form available online

Business brokers who wish to file a business broker lien must now use the new UCC-1 form and file it with the Secretary of State's Business Services Department. The form is at www.cyberdriveillinois.com (click Services for Business).

Pursuant to Section 10-115 of the Illinois Business Brokers Act of 1995 [815 ILCS 307], business brokers currently registered with the Illinois Securities Department are entitled

to file a lien against the assets of a business to ensure payment of business broker fees. However, previously recorded liens and mortgages will have priority over a broker's lien.

For questions regarding the new UCC-1 form or the Illinois Business Brokers Act, please call 800-628-7937.

Enforcement Administrative Orders

February - May 2002

Consent Order of Censure

Steven R. Jaloza (CRD# 1320831)
215 Saddle Lane
Muttontown, NY 11791

Mark M. Krist (CRD# 2676768)

2216 N. Lincoln Ave., Apt. 3B
Chicago, IL 60614

Harry M. Lefkowitz (CRD# 1454925)

3 Sycamore Lane
Goshen, NY 10924

Alphonse Mekalainas, Jr.

11 Val Page St.
Farmingdale, NY 11735

William J. Nolan (CRD# 730316)

201 Edgewood Ave., Apt. A-10
Yonkers, NY 10704

Consent Order of Prohibition

Horst Rahden

13 Pembury Way
South Barrington, IL 60010

Consent Order of Revocation

Greg D. Sanfilippo (CRD# 2628773)

70 Gina Court
Staten Island, NY 10314

Richard Michael Janicki (CRD# 2236373)

14487 Creek Crossing Dr.
Orland Park, IL 60462

Order of Prohibition

Health Maintenance Centers, Inc.

Kevin L. Lawrence

Donavon C. Claflin

175 Parfitt Way SW, Ste. N200
Bainbridge Island, WA 98110

Capital Solutions, Inc.

Mayer Edkin

6719 Seward Park Ave., South
Seattle, WA

Order of Prohibition and Fine

National Inspection and Repair, Inc.

1263 SW Harrison
Topeka, KS 66612

Online sites offer help in filing through IARD

Recent changes to the Investment Adviser Registration Depository (IARD) now permit the electronic registration of investment adviser representatives. Investment adviser firms were eligible to file via the IARD beginning in January 2001.

Secretary of State Jesse White strongly encourages investment adviser firms to register their representatives through the IARD. To help ensure the success of both "new" and "transition" filings (required as the first step for investment adviser representatives currently registered in Illinois prior to the submission of an electronic Form U-4), Secretary White suggests visiting the following Web sites.

How do I make a transition filing for an investment adviser representative?

Instructions are available at www.iard.com/pdf/firm_users_man_mod8.pdf.

How do I make a filing for a new investment adviser registration?

Instructions are available at www.iard.com/pdf/firm_users_man_mod9.pdf.

What are the IAR filing fees through IARD?

A full schedule of system fees related to IARD filings for IARs is available at www.iard.com/rep_fees.asp.

Has Form U-4 been changed?

Yes. Form U-4 as well as Form U-5 have both been revised by the NASD and SEC and are now in use for filings made on the CRD/IARD on or after March 18, 2002. These new forms and related changes are available at www.nasdr.com/3420d_adopted.asp.

What was changed on Form U-4 and Form U-5?

The NASD has compiled a side-by-side comparison of the changes between the old version of each form and the new versions. The links are as follows:

Form U-4: www.nasdr.com/pdf-text/u4_matrix.doc



Form U-5: www.nasdr.com/pdf-text/u5_matrix.doc

NASD Notice: www.nasdr.com/pdf-text/0220ntm.pdf



Survey reveals strengths, weaknesses of investing public

For the past two years, the Illinois Securities Department has conducted a 10-question survey at the Illinois State Fairs in Springfield and DuQuoin to determine the public's strengths and weakness in the areas of personal finance, savings and investing. The Securities Department uses the information to tailor investor education materials. Last year's survey revealed some interesting findings:

-  Of the 895 respondents, only 35 percent correctly answered that bond prices go down when interest rates go up.
-  Less than half (45 percent) knew that a "no-load" mutual fund involves some charges or fees.
-  Only 58 percent correctly identified stocks as the investment instrument that has generally provided the highest rate of return over the past 70 years.
-  83 percent were able to correctly determine that material omissions, unauthorized trading and filing false documents were all violations of the Illinois Securities Act.
-  82 percent knew that reading all documents pertaining to an investment, seeking advice from an attorney or accountant and asking questions were protection against investment fraud.

This year's state fairs will feature a Money Quiz. Fairgoers are encouraged to visit the Securities Department's booth in the Secretary of State tent to complete the quiz and receive a free gift. The Illinois State Fair in Springfield runs Aug. 9-18, and the DuQuoin State Fair runs Aug. 24-Sept. 2.

Congratulations



Ken Podeschi named Employee of the Month

Ken Podeschi of the Securities Department's Enforcement Section was named Secretary of State Employee of the Month for April 2002. Podeschi was sited for his "hard work in the department, willingness to help fellow employees with their tasks and his mild-mannered approach."

Ken has been with the Securities Department in the Springfield office since January 2000. He has worked as an attorney and recently moved to investigations within the Enforcement Division.



Secretary of State Jesse White presented Ken Podeschi his EOM award at a reception in his honor. His wife, Donna, is center.

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Audit Division Report

The Securities Department's Audit Division is focusing efforts this quarter on two key areas when performing compliance audits — suitability of investments purchased and the supervision of branch offices by the parent company. Although all audits consist of a review and test for compliance with Illinois securities rules and regulations, special emphasis is being placed on suitability and supervision because of recent trends indicating problems in these areas.

The division also is auditing firms that have recently registered with the department. Examinations conducted when the firm is still new allow the department to determine whether the firm has established proper procedures and is following state rules and regulations. Any deficiencies must be addressed and corrected by the firm.

In addition to broker-dealers, the division is actively examining investment advisers. The main offices of investment advisers are being scrutinized with an emphasis on advertising, contract provisions and performance projections.

During audits of registered entities in banks, the department requests that all financial institutions provide a copy of the contractual arrangement between them and the broker/dealer operating from their locations to determine functional authority and dual employee's job descriptions and functions.

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