

SECURITIES

Spring 2002

bulletin

I am pleased to provide you this new, quarterly newsletter as a service of my office's Securities Department.



Illinois has some of the toughest securities laws on the books. Through our rigorous registration of securities dealers and an active public education program, the securities industry is now held to the highest possible standards of business practice. The investing public can be assured we are doing everything in our power to help protect them against unscrupulous scam artists.

I hope you find this publication a helpful resource for your business and your clients. Should you have any suggestions for future issues, or if you have a question about your broker or investment adviser, please call my office toll-free at 800-628-7937 or the Spanish toll-free line at 888-231-1175.

Jesse White

Jesse White
Secretary of State

Series 63 exam expanded

Effective April 1, 2002, the Series 63 Exam (Uniform Securities Agent State Law Exam) will be updated and expanded from 50 to 60 questions, five of which will not count toward the final score. The score required to pass the exam will remain at 70 percent.

The Series 63 Exam covers principles of state securities regulations reflected in the Uniform Securities Act, with amendments adopted by the Northern American Securities Administrators Association (NASAA). It provides a basis for state securities administrators to determine an applicant's knowledge and understanding of state laws and regulations.

Because of the additional questions, the time allowed for completing the exam has been increased from 60 to 75 minutes. The price of the exam also has increased from \$60 to \$70.

For more information, please contact: NASAA, 10 G St. N.E., Suite 710, Washington, D.C. 20002, 202-737-0900.

Investor Adviser Registration Depository up and running

The close of 2001 brought the first full implementation of the Investment Adviser Registration Depository (IARD). Mandated by Congress, the system was developed by the U.S. Securities and Exchange Commission (SEC) with input from industry firms and representatives from state securities regulators.

The IARD allows investment advisers to meet their filing obligations with both federal and state securities administrators in one electronic transaction. Use of the system was mandated for all SEC-registered investment advisers (notice filers), which total more than 8,000 firms nationwide.

The primary goal of the IARD is to simplify the process under which SEC-registered investment advisers and, in Illinois, state investment advisers can apply for registration and submit amendments to or withdraw from registration. Benefits of the new system include:

- elimination of virtually all paper filings;
- minimizing errors that cause processing delays (i.e., no signature, omission of certain required information) because the new system requires complete filings prior to electronic processing;
- elimination of multiple paper filings because all changes associated with the entity (i.e., address changes, amendments) will be filed electronically; and
- electronic payment of required state notice filing fees.

As part of the first phase of implementing the IARD in Illinois, all investment adviser renewals — both notice filers and state-registered investment advisers — were moved to Dec. 31, 2001, to align with the end-of-year IARD renewal process. The next phase of implementation includes filings of investment adviser representatives employed by federally registered notice filers. Investment adviser representatives should be able to make transitional filings on the IARD beginning in late spring.

The IARD is patterned after the Central Registration Depository, developed in the early 1980s for processing most dealer and registered representative registration-related transactions. The National Association of Securities Dealers-Regulation operates the IARD system on contract with the SEC and the North American Securities Administrators Association.

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White warns beware of “prime bank” scams

Secretary of State Jesse White is warning the investing public that losses from “prime bank” scams are rising dramatically. One source reported losses of more than \$1.5 billion in 2001.

Low interest rates and volatile equity markets have caused many Americans to rethink their investment strategies, often turning to investments with the promise of high-yield returns. Promoters of prime bank trading programs tell investors that they can yield huge returns with no risk. In reality, neither prime banks nor the instruments they claim to trade exist.

“People believe there are secret ways to make fabulous amounts of money. But there are no shortcuts in investing. Simply put, prime banks don’t exist.”

**— Jesse White
Secretary of State**

In Illinois, Omega Trust and Trading Ltd. promised 50 to 1 returns on investments in prime bank notes. Secretary of State Securities Department investigators assisted in uncovering the scam, which resulted in investors worldwide being bilked out of more than \$18 million. A total of 19 people were indicted and all of them either pled guilty or were found guilty after trial.

In another case of investment fraud, Lynda Frykholm of Rockford was sentenced to 12 years in prison after she was found guilty of defrauding 220 investors across the U.S.

Prime bank scam artists come from all backgrounds and use their ill-gotten gains to maintain lavish

lifestyles. In the Omega case, the company’s founder, Clyde Hood, was a 66-year-old electrician in Mattoon. He used money from investors to pay for dozens of classic automobiles. Frykholm used her swindled money to purchase two vacation homes in Lake Geneva, WI, four cars, a speedboat and several trips to Switzerland.

Before making any investment, Secretary White offers investors the following tips:

- Make sure you get proper written information, such as a prospectus or offering circular. Documentation should contain clear and accurate information to allow you or your financial adviser to evaluate and verify the details of the investment.
- Some things really are too good to be true. Use common sense and get a professional, third-party opinion when considering investment opportunities that offer unusually high returns.
- Whether you are investing for long-term growth, investment income or other reasons, an investment should match your own investment goals.
- Call the Illinois Securities Department at 800-628-7937 to find out if a seller is licensed and registered. If they are not registered, they may be operating illegally. Visit the Secretary of State’s Web site at www.cyberdriveillinois.com for more information.



Securities Criminal Convictions — 2001

Omega Trust and Trading, Ltd.

Arlene Diamond

8 counts, including money laundering
17 yrs., 6 mos. prison

Clyde Hood

money laundering, mail/wire fraud, false tax return
14 yrs. prison

Billie Wilson

money laundering, mail/wire fraud
12 yrs., 6 mos. prison

James Turner

money laundering—12 yrs., 6 mos. prison

Chris Engel

money laundering—4 yrs., 9 mos. prison

Karen Baibus

mail/wire fraud—3 yrs., 10 mos. prison

Phil Haske

illegal activity—3 yrs., 6 mos. prison

Franklin Myers

illegal activity—2 yrs. prison

Jerry Wilson

mail/wire fraud, money laundering
12 mos. prison

Jeffrey Schnibben

illegal activity—12 mos. prison

Richard Jones

illegal activity

6 mos. prison, 6 mos. home detention

Bryan Boes

illegal activity

5 mos. prison, 5 mos. home detention

Barry Bullington

illegal activity—10 mos. home detention

Tommie McKibben

illegal activity—9 mos. home detention

Raymond Miller

illegal activity

3 mos. prison, 3 mos. home detention

Susan Hoehne

illegal activity—6 mos. home detention

Nancy Jones

illegal activity—6 mos. home detention

Patricia Hood

conducting monetary transaction,
filing false tax return—6 mos. home detention

Michael Kodosky

mail/wire fraud, conducting
money transaction illegal proceeds — deceased

Lynda Frykholm and J&L Investments, Inc.

Lynda Frykholm

money laundering, mail/wire fraud—12 yrs. prison

John Whitlow

money laundering, mail/wire fraud—9 yrs. prison

Paul Scott and Storm Shelter Equipment Ltd.

Paul Scott

mail/wire fraud, money laundering—2 yrs. prison

Michael Timbrook and Timbrook Enterprises

Michael Timbrook

money laundering, mail/wire fraud
3 yrs., 5 mos. prison

Investor Education meets new challenges

Last year was volatile for the stock market and securities. A new chairman of the U.S. Securities and Exchange Commission was appointed, and there was a return to a bear market after a decade of rising stock prices. Most importantly, a growing realization that not just savvy investors, but people from all levels of financial education, were in the marketplace.

In February 2001, the Illinois Securities Department created a new Investor Education & Financial Literacy Section to better educate the investing public about their rights and responsibilities and how to avoid fraud. Although the section has a very small staff, they already have accomplished many things in a short time. Last year, traveling from Elizabethtown to Rockford, Danville to Bluffs, the Investor Education Section gave 35 presentations to senior centers, civic groups, teachers' associations and students. They also manned informational displays at 31 malls, public buildings, county fairs and festivals. In addition, the staff resurrected the department's quarterly newsletter (beginning with this issue) and the first annual report to be published in several years.

Nearly all the department's brochures also have been updated and given a new look. New versions of the Senior Citizen Securities Fraud, Avoiding Business Opportunity Scams, Business Brokers and Loan Brokers brochures are now available as is a new bookmark with the Investor's Bill of Rights in both English and Spanish. More Spanish brochures and other language brochures are in the works for 2002. The widely popular *Investment Guide for Illinois Consumers* is the last of the printed materials to get a face-lift and also is now available.

To schedule a presentation or to order publications, please call 800-628-7937, or visit www.cyberdriveillinois.com.

What's Happening In Enforcement...

The Securities Department's Enforcement Division recently launched a new initiative to ensure that investment firms registered to do business in Illinois are properly supervising their registered representatives.

Under state and federal regulations, investment firms have an obligation to perform ongoing reviews of their employees' activities to guard against unscrupulous practices that could harm the investing public. These could include such things as selling unsuitable investments or making unauthorized trades in an investor's account.

The Securities Department has always pursued administrative and, in some cases, criminal actions against individual registered representatives who commit such acts. The focus of enforcement now includes determining the extent of the firm's supervision of those representatives, or lack thereof. In cases where an investment firm is not in compliance with its supervisory requirements, the Securities Department may pursue action against both the firm and the registered representative committing the violation.

New name, new edition for financial literacy program

Financial Literacy 2001, the premiere consumer education program on the basics of savings and investing, has a new name and has added a new edition to its curriculum. The Investor Protection Trust has renamed the program Financial Literacy 2010.

The change comes just in time for the newest edition to the curriculum, Personal Finance for the Economics Classroom, to go to print. This edition draws heavily from *The Basics of Savings and Investing, 1998*, but is brighter and geared more toward economics classes. The material is unchanged, as are the overheads and handouts. The five units remain the same, which encompass the financial markets, decision-making, investment choices, investment fraud and financial planning.

This year, the Securities Department's Investor Education Section will bring the program into the classroom. Seminars and workshops are being developed statewide, as are presentations for high school consumer education, business education and economics classes. A video outlining the program also is in the works and expected to be available by the beginning of the 2002-2003 school year.

Teachers or school administrators may obtain a free copy of the Financial Education 2010 curriculum by calling Rob Mehan or Vickie Moseley at the Illinois Securities Department at 800-628-7937.



Enforcement Conference scheduled for April 26

The Securities Department will host an Enforcement Conference on April 26 at the James R. Thompson Center in Chicago. The conference is geared toward prosecutors, investigators and law enforcement officials throughout the state.

The focus of this year's conference is on financial fraud and crimes against senior citizens. Presentations will include a review of current scams and a keynote address by Paul Greenwood, deputy district attorney in San Diego. Greenwood is nationally renowned for his work in the county's Elder Abuse Unit, and his presentations are lauded as insightful, informative and an inspiration to investigators and prosecutors.

The free conference is open to all law enforcement officers and attorneys in Illinois. Registration begins at 8:30 a.m., with the program and general session beginning at 9:15 a.m. and ending at noon. A continental breakfast will be served.

Due to limited space, please confirm your registration by April 1. To register, please call the Securities Department at 800-628-7937.

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Enforcement Administrative Actions

Consent Order of Revocation
John M. Carlson (CRD# 1442887)
8445 Mystic Greens Way, #2103 • Naples, FL 34113

Carson National Brokers, Ltd. (CRD# 3046)
217 S. Park Ave. • Herrin, IL 62948

Order of Prohibition
Dallas Funding Corp.
102 NE Second St., Ste. 352 • Boca Raton, FL 33432

Donald LaBarre
120 NE Second St., Ste. 352 • Boca Raton, FL 33432

Consent Order of Censure
Allegheny Investments, Ltd.
3000 McKnight East Dr. • Pittsburgh, PA 15237

Minshall & Company, Inc. (CRD# 20050)
320 S. Boston, Ste. 825 • Tulsa, OK 74103

Consent Order of Prohibition
EK-1, Inc.
256 S. Robertson Blvd. • Beverly Hills, CA 90211

Presorted
Standard
U.S. Postage
PAID
Permit #93
Spfld, IL