

STATE AUDITOR'S OFFICE
SECURITIES DEPARTMENT
HELENA, MONTANA

IN THE MATTER OF:	)	Case No.: 12-20-00-070 I
	)	
RUSSO SECURITIES, RICHARD	)	NOTICE OF PROPOSED AGENCY
ANTHONY RUSSO, FERDINAND RUSSO	)	ACTION AND OPPORTUNITY FOR
and WILLIAM G. BROWN,	)	HEARING
	)	
Respondents.	)	
	)	

TO: Russo Securities
128 Sand Lane
Staten Island, NY 10305

Richard Anthony Russo
Russo Securities
128 Sand Lane
Staten Island, NY 10305

Ferdinand Russo
Russo Securities
128 Sand Lane
Staten Island, NY 10305

William G. Brown
83 Harborview Ct.
Staten Island, NY 10305

1936 Larchmont
Houston, TX 77020

PLEASE TAKE NOTICE

Staff of the Securities Division of the office of the State Auditor and Commissioner of Securities of the state of Montana (Commissioner), pursuant to the authority of the Securities Act of Montana, Section 30-10-101, et seq., Montana Code Annotated (1999), is proposing to the Commissioner that he take disciplinary action against the entities named above for violations of the Montana Code. The Commissioner has authority to take such action under the provisions of §§ 30-10-102, 30-10-107, 30-10-110, 30-10-201, 30-10-207, 30-10-304, and 30-10-305, MCA.

In particular, pursuant to §30-10-207, MCA, the staff is recommending action against the securities broker-dealer's registration of Russo Securities and the securities registrations of the

above-named individuals, and that appropriate fines be imposed on all entities named above. Pursuant to §30-10-207, MCA, the Commissioner may issue an order revoking the registrations of the firm and the named individuals. Pursuant to §30-10-305, MCA, the Commissioner has the authority to issue an order directing Respondents to cease and desist from transacting business in the state. Pursuant to §30-10-305, MCA, the Commissioner has the authority to bring an action in any court of competent jurisdiction to enjoin the acts or practices of Respondents. Pursuant to §30-10-305, MCA, the Commissioner has the authority to impose a fine of \$5,000 per violation of the Securities Act of Montana, which in this case include alleged violations of unsuitability, unauthorized transaction, making a misleading statement or omitting material facts, failure to supervise and each instance of non-disclosure, for a possible total fine of \$210,000. Pursuant to §30-10-309, MCA, the Commissioner has the authority to require Respondents to make restitution for all financial losses sustained by Montana residents, plus 10 percent interest per annum from the date of investment, as a result of Respondents' violations of §30-10-301, MCA.

Service of process is pursuant to §30-10-107(8), MCA.

REASONS FOR ACTION

There is probable cause to believe that the following facts, if true, justify and support such disciplinary treatment.

ALLEGATIONS

1. Russo Securities (Russo) is a broker-dealer firm located at 128 Sand Lane, Staten Island, NY 10305. The firm is registered with the Montana Securities Department (Department).
2. Richard Anthony Russo is a director, chairman of the board and co-president of Russo Securities whose address is Russo Securities, 128 Sand Lane, Staten Island, NY 10305.
3. Ferdinand Russo is a director, chairman of the board, co-president, secretary, treasurer and chief compliance officer of Russo Securities whose address is Russo Securities, 128 Sand Lane, Staten Island, NY 10305.

4. William G. Brown (Brown) is a broker-dealer salesperson employed by Russo from February 1991 to June 2000. His current addresses are 83 Harborview Ct., Staten Island, NY 10305, and 1936 Larchmont, Houston, TX 77020. Brown was registered with the Department as a salesperson at all time material to this action.

5. In December 1999, a Conrad, MT, investor received numerous telephone calls from Brown offering stock in World Diagnostics Inc. (WDGI). After refusing several offers to purchase WDGI, the investor finally agreed to purchase 50 shares of stock in WDGI for \$500.

6. The new account form, signed December 31, 1999, by the investor and his wife, indicates the first trade for the account was to be 50 shares of WDGI. The new account form indicates the couple's investment objective is capital appreciation.

7. After accepting the offer to purchase WDGI, Russo sent the investors a letter confirming their acceptance of the offer and notifying them that Russo intends to execute on their behalf the purchase of 50 shares of WDGI at the market price. The letter asked the investors to send a check for \$552 for the transaction.

8. The investor sent a note back to Russo stating: "I talked to Bill Brown on 12/28/99 and he told me we agreed on 50 shares at \$500 so he was going to pay the \$52 himself. My check is enclosed for \$500. Thank you."

9. In January, the investors received an account statement indicating that instead of purchasing WDGI as previously agreed, Russo had purchased 100 shares of Canterbury Information Technology Inc. (CITI) stock for their account for \$404. The remaining \$96 was deposited into a money market fund, Galaxy Prime Reserves, as provided for in the investors' new account form.

10. On February 17, 2000, the investors sent \$5,000 to Brown at Russo and directed him to invest the money in the Galaxy Prime Reserves Money Market Fund. On March 7, 2000,

the investors received a confirmation that the \$5,000 was used to purchase 500 shares of WDGI and was not deposited in the Galaxy Prime Reserves Money Market Fund.

11. Contrary to statements from the investor, Russo's transaction confirmations indicated that all transactions in the investors' account were unsolicited, which would mean that Brown had not recommended the securities to the investor; rather the idea to invest in those securities originated with the investors. However, records provided by Russo indicate that Brown had aggressively sold WDGI to a large number of his clients in the months preceding and following the purchase for the Conrad investor.

12. While the couple's new account form indicates their investment objective is capital appreciation, both WDGI and CITI are small capitalization, speculative securities.

13. According to information from Russo, Brown is the subject of 38 customer complaints alleging unauthorized trades, suitability and other unethical practices during the period January 1998 to October 2000. While Russo and Brown are required to report reportable customer complaints to the National Association of Securities Dealers' Central Registration Depository (CRD) within 30 days of receipt, a significant portion of these complaints were not reported to the CRD.

CONCLUSIONS

1. The Commissioner has jurisdiction over this matter by virtue of Respondents' offer and sale of securities in Montana.

2. Respondent Russo is a broker-dealer firm within the meaning of the Securities Act of Montana, §30-10-103(1), MCA.

3. Respondent Brown is a salesperson within the meaning of the Securities Act of Montana, §30-10-103(20), MCA.

4. Offer or offer to sell includes "each attempt or offer to dispose of or solicitation of an offer to buy a security or interest in a security for value." §30-10-103(15), MCA.

5. In connection with the above offers and sales to persons in Montana, Respondents violated §30-10-201(13)(g), MCA, and 6.10.126, ARM, by engaging in dishonest or unethical practices in the securities business by:

- a. Purchasing securities for the investors' account without the investors' authorization;
- b. Offering and recommending the purchase of securities for the investors' account that were unsuitable based on the investors' stated investment objectives; and
- c. Engaging in the conduct of non-disclosure or incomplete disclosure of material facts.

6. In connection with the above offers and sales to persons in Montana, Respondents violated §30-10-301, MCA, by making an untrue statement of a material fact or by omitting to state a material fact necessary to make other statements not misleading when Respondents failed to disclose that the firm had received 38 customer complaints against Respondent Brown.

7. In connection with the above offers and sales to persons in Montana, Respondents violated §30-10-201(13)(k), MCA, by failing to supervise Brown with respect to the above offers and sales of securities.

8. In connection with the above offers and sales to persons in Montana, Respondents violation §30-10-201(12)(c), MCA, by failing to file correcting amendments with the Commissioner.

STATEMENT OF RIGHTS

You are entitled to a hearing and to respond to this notice and present evidence and arguments on all issues involved in this case. You may have a formal hearing before a hearing examiner appointed by the Commissioner. This is provided for by the Montana Administrative Procedure Act, sections 2-4-601, MCA, and following, including Section 2-4-631, MCA. If you demand a hearing, you will be given notice of the time, place and the nature of the hearing.

Pursuant to section 6.2.122, Administrative Rules of Montana, the commissioner shall hold the hearing within 30 days after receipt of the demand, unless postponed by mutual consent.

You have a right to be represented by an attorney at any and all stages of this proceeding.

If you want to resist the proposed action under the jurisdiction of the Commissioner, you must so advise him within fifteen (15) days of the date you receive this notice. You may so advise him by writing to Brenda K. Elias, State Auditor's Office, 840 Helena Ave., P.O. Box 4009, Helena, Montana, 59604-4009. While so advising Ms. Elias, you should make clear whether you demand a hearing, or whether you waive formal proceedings and, if so, what informal proceedings you prefer for handling this case. Pursuant to section 2-4-603(2), Mont. Code Ann., you may not request to proceed informally if the action could result in suspension, revocation or any other adverse action against a professional license.

Should you request a hearing, you have the right to be accompanied, represented, and advised by counsel. If the counsel you choose has not been admitted to practice law in the state of Montana, he or she must comply with the requirements of Application of American Smelting and Refining Co., (1973), 164 Mont. 139, 520 P.2d 103.

CONTACT WITH SECURITIES COMMISSIONER'S OFFICE

If you have questions or wish to discuss this matter, please contact Brenda Elias, legal counsel for the State Auditor, at P.O. Box 4009, Helena, MT, 59604-4009, (406) 444-3496 or, within Montana, (800) 332-6148. If an attorney represents you, please make any contacts with this office through your attorney.

POSSIBILITY OF DEFAULT

Failure to give notice or to advise of your demand for a hearing or form of informal procedure within fifteen (15) days, will result in the entry of a default order imposing the disciplinary sanctions against you and your registration, all without any more notice to you, pursuant to 6.2.101, ARM, and the Attorney General's Model Rule 10, 1.3.214.

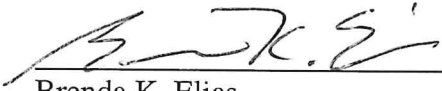
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DATED this 22nd day of February, 2001.

JOHN MORRISON

State Auditor and
Commissioner of Securities

By: 
Brenda K. Elias
Securities Attorney

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Paula Sautter
State Auditor's Office