

STATE AUDITOR'S OFFICE
SECURITIES DEPARTMENT
HELENA, MONTANA

IN THE MATTER OF:	)	Case No.: 12-20-00-070 I
	)	
RUSSO SECURITIES, RICHARD	)	TEMPORARY CEASE AND DESIST
ANTHONY RUSSO, FERDINAND RUSSO	)	ORDER
and WILLIAM G. BROWN,	)	
	)	
Respondents.	)	
	)	

The Montana Securities Commissioner (Commissioner), pursuant to the authority of the Securities Act of Montana, section 30-10-101, et seq., Montana Code Annotated (1999) [hereinafter cited as MCA], and section 30-10-305, MCA, hereby issues the following allegations of fact, proposed conclusions of law, order and notice of right to a public hearing:

ALLEGATIONS OF FACT

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 WDCI 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 WDCI 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.

ORDER

Pursuant to §30-10-305(1)(a), MCA, it appears to the Commissioner that the above named Respondents have engaged or are about to engage in an act or practice constituting a violation of the Securities Act of Montana and therefore hereby orders Respondents to cease and desist issuing, offering, and selling securities to persons in this state in violation of the Securities Act of Montana, and to cease and desist the above-described activity.

Section 30-10-306(1), MCA, provides that any willful violation of this cease and desist order, upon conviction, may be punished by imprisonment for not more than ten (10) years and/or a fine not exceeding five thousand dollars (\$5,000).

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NOTICE

Respondents are notified that the Commissioner has issued this temporary cease and desist order. If Respondents wish to contest the allegations herein, they shall make a written request for a hearing to Brenda K. Elias of this office within fifteen (15) days of receipt of this order. The hearing shall then be held within thirty (30) days of the Commissioner's receipt of the hearing request unless otherwise agreed by the parties. If Respondents request no hearing within fifteen (15) days of receipt of this order, and the Commissioner orders none, this order shall become permanent.

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 the practice of law in the State of Montana, he or she must comply with the requirements of Application of American Smelting and Refining, Co., 164 Mont. 139, 520 P.2d 103 (1973).

DATED this 22 day of February, 2001.



JOHN MORRISON
State Auditor and
Commissioner of Securities

CERTIFICATE OF SERVICE

I hereby certify that I mailed a true and correct copy of the foregoing TEMPORARY
CEASE AND DESIST ORDER to the following persons by depositing the same in the U.S.

Mail, certified, return receipt requested, on this 23 day of February, 2001.

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

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

Ferdinand Russo
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William G. Brown
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William G. Brown
1936 Larchmont
Houston, TX 77020



State Auditor's Office