

STATE OF ALABAMA
ALABAMA SECURITIES COMMISSION

IN THE MATTER OF:)	
)	
L. H. ROSS & COMPANY, INC.)	ADMINISTRATIVE ORDER
FRANKLYN ROSS MICHELIN)	NO. OR- 2005-0010
)	
<u>RESPONDENTS</u>)	

ORDER OF REVOCATION

The Alabama Securities Commission, having the power to administer and provide for the enforcement of all provisions of Title 8, Chapter 6, Code of Alabama 1975, the Alabama Securities Act, upon due consideration of the subject matter hereof, has determined as follows:

RESPONDENTS

1. Respondent L. H. Ross & Company, Inc. ("LHROSS"), a New York corporation with a business address of 2255 Glades Road, Suite 425W, Boca Raton, FL 33431, has been a registered securities dealer in the state of Alabama during the period January 29, 1997 until the present date pursuant to Section 8-6-3, Code of Alabama 1975.

2. Respondent Franklyn Ross Michelin ("MICHELIN"), with a business address of 2255 Glades Road, Suite 425W, Boca Raton, FL 33431, has been a registered agent in the state of Alabama during the period January 29, 1997 until the present date pursuant to Section 8-6-3, Code of Alabama 1975.

STATEMENT OF FACTS

3. MICHELIN is the President, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Compliance Office and President of LHROSS. MICHELIN also owns L. H. Ross Holding Corporation, which owns all of LHROSS's common stock.

4. On August 30, 2004, LHROSS received a Temporary Cease and Desist Order from the National Association of Securities Dealers ("NASD") ordering LHROSS to cease and desist from multiple securities-related violations including sec. 17(a) of the Securities Act of 1933, Sec. 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 promulgated thereunder, NASD rules 2120 and 2110, and from dissipating or converting customers' assets or causing other harm to investors.

5. On December 15, 2004, a Hearing Panel of the NASD issued a decision against LHROSS and MICHELIN for violations of NASD Conduct Rule 2110, which requires members to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business. Specifically, LHROSS and MICHELIN had failed to pay an arbitration award and had filed a meritless pleading. As a result, the Hearing Panel fined LHROSS \$50,000, jointly and severally, and ordered LHROSS to pay nearly \$70,000 in restitution. In addition, the Hearing Panel suspended MICHELIN for six months.

6. On January 14, 2005, a Hearing Panel of the NASD issued a decision against LHROSS for having offered and sold unregistered securities in violation of NASD Conduct Rule 2110 and Section 5 of the Securities Act of 1933 and for having committed securities fraud in violation of NASD Conduct Rules 2110 and 2120, section 17(a) of the Securities Act of 1933, and section 10(b) of the Securities and Exchange Act of 1934 and SEC Rules 10b-5 promulgated thereunder. Specifically, LHROSS had engaged in "a scheme to defraud investors," operating as a "boiler room" and making material misrepresentations and omissions in connection with the offer and sale of securities issued by LHROSS through private placement offerings in 2003 and 2004. The Hearing Panel found that LHROSS's activity included an egregious pattern of intentional misconduct and that LHROSS had attempted to obstruct the NASD's investigation. Further, the Hearing Panel stated that the matter involved "widespread, significant and identifiable customer harm" and that any future attempt by LHROSS to solicit customers to invest in unregistered securities would pose "an extreme threat to the investing public."

7. As a result of its findings, the Hearing Panel in the January 14, 2005 decision expelled LHROSS from NASD membership, ordered the firm to permanently

cease and desist from violating securities laws and regulations, imposed a \$500,000 fine, and ordered LHROSS to pay over \$11 million in restitution.

8. The Hearing Panel in the January 14, 2005 decision also noted “the firm’s extensive disciplinary history” as evidence of the firm’s “disregard for regulatory requirements, investor protection and commercial integrity.” Indeed, both LHROSS and MICHELIN have a lengthy record of actions and orders against them by the NASD and state regulators, as well as an undistinguished history of customer complaints and arbitration claims.

9. On February 25, 2005, LHROSS was suspended by the NASD pursuant to the provisions of NASD Code of Procedure 9558. The NASD Suspension Order stated in pertinent part, “...L.H. Ross & Company, Inc. is in such financial or operating difficulty” that the firm “cannot be permitted to continue to do business as a member with safety to investors, creditors, other members or NASD” based on the inaccuracy of data contained in the firm’s most recent focus filing; the firm’s inability to provide supporting data that the firm should have had available and access to in preparing its financial reports; the firm’s failure to account for certain known charges in its net capital computation; its failure to follow prudent accounting practices such as the balance of its bank accounts; its violation of an NASD cease-and-desist order; the firm’s depletion of its resources, in part through securities transactions in apparent violation of NASD rules and the lack of current clearing arrangement.

10. Three actions against LHROSS and MICHELIN are still pending before NASD disciplinary panels. The first action, filed on October 24, 2003, alleges that they operated an illegal scheme to manipulate the market in Trident International Systems stock and engaged in an unregistered distribution of that stock through fraudulent sales practices including unauthorized trading, failure to execute sell orders, excessive markups, and material misrepresentations and omissions. It also alleged that they failed to supervise sales agents. The second action, filed on July 7, 2004, alleges that they participated in a scheme to defraud their customers through making unauthorized trades, falsifying order tickets, and failing to make and preserve order tickets. It is also alleged that they unlawfully employed an unregistered person and failed to supervise sales agents. The third action, filed on August 26, 2004, alleges that they failed to

respond to several NASD requests for information.

11. On January 17, 2005, after providing notice and opportunity for hearing, the state of New Hampshire issued an order revoking LHROSS's broker-dealer registration for having allowed unlicensed sales representatives to sell unregistered securities.

12. On January 18, 2005, after providing notice and opportunity for hearing, the state of Connecticut issued an order revoking LHROSS's broker-dealer registration, ordering the firm to permanently cease and desist from violating securities laws and regulations, and imposing a fine of \$420,000. The basis for the order involved, among other things, various dishonest and unethical business practices, failure to supervise sales agents, and willful violations of state law including the employment of unregistered persons and unauthorized securities transactions in customer accounts.

13. On February 14, 2005, after providing notice and opportunity for hearing, the state of Texas issued an order revoking LHROSS's broker-dealer registration for fraudulent business practices, unsuitable customer investments, inequitable practices in the sale of securities, and a refusal to furnish information to the Texas securities commissioner.

14. On March 8, 2005, after providing notice and opportunity for hearing, the state of Maine issued an order revoking LHROSS's broker-dealer registration for allegations stated herein against LHROSS by NASD and the states of New Hampshire, Connecticut and Texas.

15. On March 22, 2005, after providing notice and opportunity for hearing, the state of Colorado issued an order revoking LHROSS's broker-dealer registration for allegations stated herein against LHROSS by NASD and the states of New Hampshire, Connecticut, Texas and Maine.

CONCLUSIONS OF LAW

16. LHROSS has been the subject of an order which revoked its registration as a securities dealer in the state of New Hampshire for having allowed unlicensed sales representatives to sell unregistered securities. This activity would constitute a

violation of the provisions of Section 8-6-3(a), Code of Alabama 1975.

17. LHROSS has been the subject of an order which revoked its registration as a securities dealer in the state of Connecticut for various dishonest and unethical business practices, failure to supervise sales agents, and willful violations of state law including the employment of unregistered persons and unauthorized securities transactions in customers' accounts. These activities would constitute violations of the provisions of Sections 8-6-3(j)(7), 8-6-3(j)(10) and 8-6-3(j)(2), Code of Alabama 1975.

18. LHROSS has been the subject of an order which revoked its registration as a securities dealer in the state of Texas for the sale of unregistered stock and multiple fraudulent misrepresentations and inequitable practices in the sale of securities. These activities would constitute violations of the provisions of Sections 8-6-4 and 8-6-3(j)(7), Code of Alabama 1975.

19. LHROSS has been the subject of an order which revoked its registration as a securities dealer in the state of Maine for being the subject of an order by the SEC and/or another state securities agency, the subject of an order by another state securities agency or by the NASD suspending or revoking that person's license, expulsion from membership in a self-regulatory organization registered under the Securities Exchange Act of 1934, intentionally or knowingly violating or failing to comply with a provision of the federal securities laws or other state securities laws, failing reasonably to supervise sales representatives, and engaging in any unlawful, unethical or dishonest conduct or practice in the securities business. These activities would constitute violations of the provisions of Sections 8-6-3(j)(6), 8-6-3(j)(2), 8-6-3(j)(10), and 8-6-3(j)(7), Code of Alabama 1975.

20. LHROSS has been the subject of an order which revoked its registration as a securities dealer in the state of Colorado for expulsion from membership in a self-regulatory organization registered under the Securities Exchange Act of 1934 and being the subject of orders by other states' securities agencies. These activities would constitute violations of the provisions of Section 8-6-3(j)(6), Code of Alabama 1975.

21. Pursuant to the provisions of Section 8-6-3(j)(6), Code of Alabama 1975, the Alabama Securities Commission may revoke any applicant or registrant if the Commission finds that the applicant or registrant is the subject of an order, adjudication

or determination entered within the past 10 years by a securities or commodities agency or a national securities exchange or association registered under the Securities Exchange Act of 1934, or an administrator of another state, or a court of competent jurisdiction that the person has violated the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940, the Investment Company act of 1940, the Commodity Exchange Act or the federal mail and wire fraud statutes, or the securities, investment adviser or commodities law of any other state; but the Commission may not enter any order under this subsection on the basis of an order unless that order was based on facts that would currently constitute a ground for an order under this section. NASD issued a Suspension Order on February 25, 2005 based in part on LHROSS's failure to cease and desist from further securities violations as evidenced by the violation of the Temporary Cease and Desist Order dated August 30, 2004.

22. Pursuant to 8-6-3(j)(7) (Code of Alabama, 1975, as amended), states "...the Commission may by order revoke or suspend any registration in this State if the Commission finds the order is in the public interest and that the registrant has engaged in dishonest or unethical business practices in the securities business." This is in part based on securities transactions carried out by LHROSS that were in apparent violation of NASD rules.

23. Pursuant to 8-6-3(j)(8) (Code of Alabama, 1975, as amended), states "...the Commission may by order revoke or suspend any registration in this State if the Commission finds the order is in the public interest and the registrant is insolvent, either in the sense that liabilities exceed assets or in the sense that the registrant cannot meet obligations as they mature, but the Commission may not enter an order against a dealer or investment adviser under this subsection without a finding of insolvency as to the dealer or investment adviser." The NASD citation of financial difficult was to a degree that LHROSS could not be permitted to continue to do business.

24. Pursuant to 8-6-3(j)(10) (Code of Alabama, 1975, as amended), states the Commission may by order revoke or suspend any registration in this State if the Commission finds the order is in the public interest and Respondent (LHROSS) "has failed reasonably to supervise their agents or employees...to assure their compliance

with this article.” This is in part based on MICHELIN’s failure to adequately supervise accounting personnel that did not balance bank accounts and failed to account for certain known charges in its net capital computation.

This Order is appropriate in the public interest for the protection of investors and consistent with the purposes of the Alabama Securities Act.


Further, this Order does not prevent the Commission from seeking such other civil or criminal remedies that are available to it under the Alabama Securities Act.

ACCORDINGLY, IT IS HEREBY ORDERED that the registration of Respondents LHROSS and MICHELIN, as a securities dealer in the state of Alabama, is hereby **REVOKED**.

Entered at Montgomery, AL, this the 28th day of March, 2005.

ALABAMA SECURITIES COMMISSION
770 Washington Avenue, Suite 570
Montgomery, AL 36130-4700
(334) 242-2984

BY:



JOSEPH P. BORG
Director

