

NASD OFFICE OF HEARING OFFICERS

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

GEORGE E. LEVENTIS
(CRD No. 2583180),

Respondent.

Disciplinary Proceeding
No. EAF0400220003

DEFAULT DECISION

Hearing Officer – SW

Date: March 21, 2006

Finding that Respondent omitted material information and made material misrepresentations, including price predictions, when soliciting customers to purchase securities, the Hearing Officer barred Respondent from associating with any NASD member firm in any capacity for violating Section 10(b) of the Securities Exchange Act of 1934, SEC Rule 10b-5 thereunder, NASD Conduct Rules 2120 and 2110, and Section 17(a) of the Securities Act of 1933 through NASD Conduct Rule 2110.

In addition to the bar, Respondent was directed to reimburse (i) customer RH \$140,000 plus interest, (ii) customer RP \$28,000 plus interest, and (iii) customer DM \$28,000 plus interest.

Appearances

Brian D. Craig, Esq., Senior Attorney, and Rory C. Flynn, Esq., Of Counsel,
Washington, DC, for the Department of Enforcement.

No appearance by or for George E. Leventis.

DECISION

I. Introduction

On November 1, 2005, the NASD Department of Enforcement (“Enforcement”) filed the attached one-count Complaint in this proceeding. The Complaint alleges that Respondent George E. Leventis (“Respondent”) violated Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”), SEC Rule 10b-5 thereunder, NASD Conduct

Rules 2120 and 2110, and Section 17(a) of the Securities Act of 1933 ("Securities Act") through NASD Conduct Rule 2110, when he solicited customers to purchase units of preferred stock of his employer, LH Ross & Company, Inc. ("LH Ross" or the "Firm").

Pursuant to NASD Rules 9215(a) and 9138(c), Respondent was required to file an answer to the Complaint, which he failed to do. Accordingly, on January 23, 2006, Enforcement filed a Motion for Entry of Default Decision ("Motion") supported by a declaration of Brian D. Craig, Esq., Senior Attorney, and four attached exhibits.¹ For the reasons set forth below, Enforcement's Motion is granted.

II. Respondent's Default

On November 1, 2005, Enforcement served the Complaint and Notice of Complaint on Respondent, via first class and certified mail, at his current residential address reflected in NASD's Central Registration Depository ("CRD address").² (DECL at ¶ 5; CX-1, p. 1). On November 21, 2005, Respondent contacted the NASD staff about granting an extension of time to file an Answer. (DECL at ¶ 6). The NASD staff directed Respondent to file a formal written request for an extension with the Office of Hearing Officers, which Respondent failed to do. (Id.).

On December 1, 2005, Enforcement served a Second Notice of Complaint and Complaint on Respondent, via first class and certified mail, at his CRD address. (DECL at ¶ 7). To date, Respondent has not filed either a request for an extension to file an Answer or an Answer with NASD. (DECL at ¶ 8).

¹ Hereinafter, the statements in the Motion for Entry of Default Decision will be designated as "Motion, p.," the statements in the Craig declaration will be designated as "DECL," and Enforcement's exhibits will be designated as "CX- " with the page number or paragraph number, as appropriate.

² Respondent's CRD address is [REDACTED]. (CX-1, p. 1). In an April 5, 2005 on-the-record interview, Respondent confirmed that his residence was his CRD address. (DECL at ¶ 9; CX-2, p. 5).

Based on Respondent's telephone call to the NASD staff upon receiving the Complaint, the Hearing Officer finds that Respondent received actual notice of this proceeding. In any event, the Hearing Officer finds that Respondent received constructive notice of this proceeding because Enforcement complied with Rule 9134(b)(1) by mailing the Complaint and Notices of Complaint to Respondent's CRD address.³ Thus, Respondent received valid notice of this proceeding and defaulted by failing to answer the Complaint.

III. Findings of Fact and Conclusions of Law

A. Jurisdiction

In 1994, Respondent first became registered with an NASD member. (CX-1, p. 2). From April 19, 2001 to June 23, 2004, Respondent was registered with LH Ross as a general securities representative. (CX-1, p. 4). From June 21, 2004 to January 3, 2005, Respondent was registered as a general securities representative with Hunter Scott Financial LLC. (CX-1, p. 3; DECL at ¶ 4). Respondent is not currently registered with any NASD member firm. (CX-1, p. 2; DECL at ¶ 4).

NASD has jurisdiction to bring this proceeding, pursuant to Article V, Section 4 of the NASD By-Laws, because Enforcement filed the Complaint within two years after Respondent's registration terminated, and the Complaint alleges misconduct while he was registered.

³ *Dep't of Enforcement v. Reynolds Verdiner*, No. CAF020004, 2003 NASD Discip. LEXIS 42, at *5 (N.A.C. Dec. 9, 2003) (NASD Procedural Rule 9134(b)(1) allows for constructive notice by mailing a complaint to the respondent's most recent CRD address) quoting *Lubeck v. SEC*, 1998 U.S. App. LEXIS 18849, at *20 (9th Cir. Aug. 12, 1998).

B. Respondent Omitted Material Information and Made Material Misrepresentations when He Solicited Three Customers to Purchase Units of Preferred Stock of LH Ross

The Complaint alleges that while registered with LH Ross, Respondent recommended the purchase of units of LH Ross preferred stock to three customers through the use of material misrepresentations and omissions. (Complaint at ¶¶ 10-28).

1. LH Ross Private Offering

Specifically, the Complaint alleges that in January 2003, LH Ross initiated a private offering of 5,000 units of LH Ross preferred stock, priced at \$1,400 per unit. (Complaint at ¶ 3). According to the private placement memorandum dated January 6, 2003 (“2003 PPM”), a unit contained 100 shares of convertible preferred stock, valued at \$14 per share, with a dividend of 6% per annum, payable quarterly. (*Id.*).

The 2003 PPM explicitly stated that the offering price was arbitrarily determined by LH Ross and did not bear a relationship to the Firm’s financial position, book value, or any other generally accepted criteria of value. (Complaint at ¶ 4). The 2003 PPM described the investment in LH Ross as involving a high degree of risk, and it listed a number of risk factors, including: (i) the Firm’s net loss of more than \$2.2 million in fiscal year 2001 and more than \$1.1 million in fiscal year 2002, as well as the possible need for additional financing to fund the Firm’s operational needs and meet its capital requirements; (ii) the nine arbitration claims pending against the Firm; (iii) actions brought by regulatory authorities against the Firm, including NASD, the State of Utah, the State of Florida, and the State of Connecticut; (iv) the Firm’s failure to pay dividends since the end of 2001; and (v) the absolute discretion of LH Ross’s Board of Directors to defer the promised dividends of the 2003 offering. (Complaint at ¶¶ 4-5). Respondent

was involved in soliciting several customers to invest in the 2003 LH Ross private placement offering. (Complaint at ¶ 10).

2. Customers RH, RP, and DM

In November 2003, Respondent recommended that customer RH invest in the 2003 LH Ross private placement offering. (Complaint at ¶ 21). Although LH Ross had filed no documents with the SEC, NASD, or any state regulatory authority to initiate the public offering process, Respondent told RH that the Firm would be going public in August 2004, that the Firm's preferred stock would split 2-for-1 to common shares, and that the common shares would sell for \$17.00 per share once the Firm went public. (Complaint at ¶¶ 4, 22). Respondent failed to disclose any of the risk factors of the offering, including the Firm's 2001 and 2002 operating losses, the Firm's extensive regulatory history, and the possibility that RH could lose his entire investment. (Complaint at ¶ 23). Based on Respondent's misrepresentations and omissions of material fact, RH purchased 1,000 shares (10 units) in the 2003 offering for \$14,000 in December 2003. (Complaint at ¶ 24; CX-4, p. 6). Customer RH purchased an additional 1,000 shares (10 units) for \$14,000 in February 2004, and an additional 8,000 shares (80 units) for \$112,000 in March 2004, for a total investment of \$140,000. (Complaint at ¶ 24; CX-4, pp. 4-5). RH's \$140,000 investment in LH Ross preferred stock subsequently became worthless upon the Firm's demise in January 2005. (Complaint at ¶ 25).

In December 2003, Respondent recommended that customer RP invest in the 2003 LH Ross private placement offering. (Complaint at ¶ 16). Respondent told RP that the Firm would be going public by April 2004 and that an analyst already had valued the stock at \$17.00 per share. (Complaint at ¶ 17). Respondent failed to disclose any of the

risk factors of the offering, including the Firm's extensive regulatory history or that RP could lose his entire investment, and Respondent failed to provide RP with a copy of the 2003 PPM. (Complaint at ¶¶ 17-18). Based on Respondent's misrepresentations and omissions of material fact, RP purchased 2,000 shares (20 units) in the 2003 offering for \$28,000 on January 30, 2004. (Complaint at ¶ 19; CX-4, p. 3). Customer RP's shares of LH Ross preferred stock are now worthless. (Complaint at ¶ 20).

In March 2004, Respondent recommended that customer DM invest in the 2003 LH Ross private placement offering. (Complaint at ¶ 11). Respondent told DM that the \$14 stock had already increased to approximately \$20 per share, that the price would likely double in value once the public offering occurred, and that "everything was on track" for the Firm to go public within a few weeks. (Complaint at ¶ 12). Respondent failed to disclose any of the Firm's specific risk factors and failed to provide DM with a copy of the 2003 PPM, which listed the Firm's risk factors. (Complaint at ¶ 13). On March 16, 2004, based on Respondent's misrepresentations and omissions of material facts, DM purchase 2,000 shares (20 units) of LH Ross for \$28,000. (Complaint at ¶ 14; CX-4, pp. 1-2). DM never received any dividend payments. (Complaint at ¶ 14). Customer DM's shares of LH Ross preferred stock are now worthless. (Complaint at ¶ 15).

In addition to the information in the Complaint, Enforcement provided the additional information that Respondent admitted that he was paid a selling commission of 10% of the subscription price per unit sold, consistent with the disclosure in the 2003 PPM. (CX-3, p. 1; CX-2, pp. 6-7).

Under Rule 9215(f) and Notice to Members 99-77, the allegations of the Complaint are deemed admitted, and they are hereby incorporated in this Default Decision as findings of fact.

3. Discussion

Section 17(a)(1) of the Securities Act proscribes fraudulent conduct in the offer or sale of securities, while Section 10(b) of the Exchange Act⁴ and Rule 10b-5 proscribe fraudulent conduct in connection with the purchase or sale of securities. Conduct Rule 2120, NASD's anti-fraud rule, provides that no member shall effect any transaction in, or induce the purchase or sale of any security, by means of any manipulative, deceptive, or fraudulent device.⁵

In order to find a violation of Section 17(a)(1) of the Securities Act, Section 10(b) of the Exchange Act, SEC Rule 10b-5, and Rule 2120, there must be a showing that: (1) material misrepresentations and/or omissions were made; (2) the misrepresentations and/or omissions were made with requisite intent, i.e., scienter;⁶ and (3) the misrepresentations and/or omissions were made in connection with the purchase or sale

⁴ Section 10(b) of the Exchange Act provides:

"It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce or of the mails, or of any facility of any national securities exchange:

(b) To use or employ, in connection with the purchase or sale of any security registered on a national securities exchange or any security not so registered, any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest for the protection of investors."

⁵ Prime Investors, Inc., Securities Exchange Act Release No. 38,487, 1997 SEC LEXIS 761, at *24 (April 8, 1997) (making material misstatements of fact in connection with a sale of a security is a violation of Conduct Rule 2120).

⁶ See Aaron v. SEC, 446 U.S. 680, 686-87 n. 5 (1980); Ernst v. Hochfelder, 425 U.S. 185, 193 (1976).

of securities.⁷

The omissions made by Respondent concerning the financial condition of LH Ross and the misrepresentations about the future price of the speculative security is information that would have been viewed by a reasonable investor as having significantly altered the total mix of information available and therefore it was material information.⁸

Scienter is established by a showing that the Respondent acted intentionally or with severe recklessness.⁹ Recklessness has been defined as highly unreasonable conduct involving not merely simple or excusable negligence, but an extreme departure from the standards of ordinary care, and that presents a danger of misleading buyers or sellers, which is either known to the defendant or is so obvious that the defendant must have been aware of it.¹⁰ The SEC has repeatedly held that specific predictions of the future value of a speculative or unseasoned security are inherently fraudulent because there can be no basis for predicting the future value of a speculative or unseasoned security.¹¹

Respondent acted with scienter because he intentionally made the price predictions and did not discuss the risk factors set forth in the 2003 PPM.

⁷ For Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and SEC Rule 10b-5 thereunder, the transactions must also involve interstate commerce or the mails, or a national securities exchange. Respondent used a means and instrumentality of interstate commerce when he communicated with the customers via telephone across state lines. See SEC v. Hasho, 784 F. Supp. 1059, 1106 (S.D.N.Y. 1992), 1992 U.S. Dist. LEXIS 1322 at **148-149 (1992).

⁸ Basic, Inc. v. Levenson, 485 U.S. 224, 231-232, (1988).

⁹ Tuchman v. DSC Communications Corp., 14 F.3d 1061, 1067 (5th Cir. 1994), 1994 U.S. App. LEXIS 3326 at **14 (1994).

¹⁰ Id.

¹¹ Donald A. Roche, Exchange Act Release No. 38742, 1997 SEC LEXIS 1283, at *5 nn. 2-3 (1997).

Respondent's material misrepresentations and omissions were designed to induce customers DM, RP, and RH to purchase LH Ross preferred stock, and therefore were made in connection with the purchase or sale of securities.¹²

Based on the allegations deemed admitted, the Hearing Officer concludes that Respondent made material misrepresentations and omissions, with the requisite scienter, in connection with the purchase or sale of securities as alleged in the sole count of the Complaint, and thereby violated Section 10(b) of the Exchange Act, SEC Rule 10b-5 thereunder, and Section 17(a)(1) of the Securities Act through NASD Conduct Rule 2110. Conduct that violates Section 10(b) of the Exchange Act, and SEC Rule 10b-5 thereunder, is also violative of NASD Conduct Rule 2120, NASD's analog to SEC Rule 10b-5.¹³

Further, NASD has found that misrepresentations and omissions of material facts, which violate SEC Rule 10b-5 and Conduct Rule 2120, support a violation of NASD Conduct Rule 2110.¹⁴ Accordingly, by his conduct, Respondent has also failed to observe high standards of commercial honor and just and equitable principles of trade in violation of NASD Conduct Rule 2110.

IV. Sanction

The NASD Sanction Guidelines for misrepresentations or material omissions of facts provide for fines ranging from \$10,000 to \$100,000 for intentional or reckless

¹² See SEC v. Materia, 745 F.2d 197, 203 (2d Cir. 1984), cert denied, 471 U.S. 1053, 105 S.Ct. 2112 (1985).

¹³ District Business Conduct Committee for District 9 v. Michael R. Euripides, Complaint No. C9B950014, 1997 NASD Discip. LEXIS 45, at *7 (1997).

¹⁴ Micah C. Douglas, Exchange Act Release No. 37865, 1996 SEC LEXIS 3008, at *1 n.1 (1996).

misrepresentations or material omissions, and, in egregious cases, a bar.¹⁵ The NASD Sanction Guidelines also recommend that adjudicators order restitution where an identifiable person has suffered a quantifiable loss as a result of a respondent's misconduct.¹⁶

Arguing: (i) that Respondent's conduct was reckless or intentional; (ii) that the conduct resulted in substantial financial benefit to Respondent; and (iii) that the conduct continued for more than one year, Enforcement recommended that Respondent be barred. In addition, Enforcement sought restitution for customers RH, RP, and DM.

The Hearing Officer finds that Respondent's conduct was egregious. The Hearing Officer bars Respondent for the fraudulent omissions and misrepresentations, including baseless price predictions, and orders Respondent to pay \$140,000 to customer RH plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from December 4, 2003, the date of the violative conduct, until paid. In addition, Respondent is ordered to repay \$28,000 to customer RP plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from January 30, 2004, the date of the violative conduct, until paid, and to pay customer DM \$28,000 plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from March 16, 2004, the date of the violative conduct, until paid.

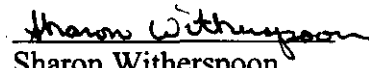
¹⁵ NASD Sanction Guidelines, p. 93 (2005).

¹⁶ Id. at 4.

V. Order

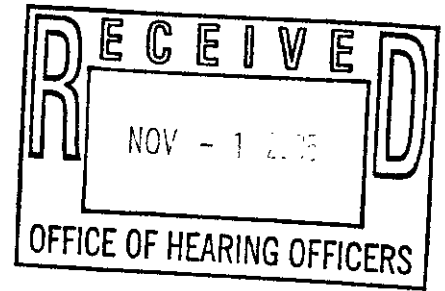
The Hearing Officer barred Respondent George E. Leventis for the fraudulent omissions and misrepresentations, including baseless price predictions, in violation of Section 10(b) of the Exchange Act, SEC Rule 10b-5 thereunder, Section 17(a) of the Securities Act, and NASD Conduct Rules 2120 and 2110. In addition to the bar, Respondent is directed to reimburse (i) customer RH \$140,000 plus interest from December 4, 2003, until paid, (ii) customer RP \$28,000 plus interest from January 30, 2004, until paid; and (iii) customer DM \$28,000 plus interest from March 16, 2004, until paid. The interest to be charged is at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2).

These sanctions shall become effective on a date set by NASD, but not before the expiration of 30 days after the date this Default Decision becomes the final disciplinary action of NASD; provided, however, that the bar shall become effective immediately upon this Default Decision becoming the final disciplinary action of NASD.


Sharon Witherspoon
Hearing Officer

Date: Washington, D.C.
March 21, 2006

Copies to:
George E. Leventis (via FedEx and first class mail)
Brian D. Craig, Esq. (via electronic and first class mail)
Rory C. Flynn, Esq. (via electronic and first class mail)



NASD OFFICE OF HEARING OFFICERS

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

GEORGE E. LEVENTIS,
CRD No. 2583180

Respondent.

DISCIPLINARY PROCEEDING
NO. EAF0400220003

HEARING OFFICER –

COMPLAINT

Upon information and belief, the Complainant alleges as follows:

SUMMARY

1. From approximately April 19, 2001 to June 23, 2004, Respondent, George Leventis, was associated with LH Ross & Company, Inc. ("LH Ross"), a former member of NASD expelled from membership in January 2005. This complaint concerns Leventis's sales to customers of unregistered shares of convertible preferred stock offered by LH Ross in 2003 and 2004.

RESPONDENT

2. Respondent, George Leventis ("Leventis"), was associated with LH Ross as a salesman and associated representative, from April 2001 through June 2004. Leventis was registered with NASD as a Series 7, General Securities Representative. Although Leventis is not currently associated with a member firm, NASD has jurisdiction to issue this Complaint against Leventis pursuant to Article V, Section 4, of the NASD By-Laws.

FACTS

A. LH Ross's Private Placement Offering.

3. In January 2003, LH Ross initiated a private offering consisting of 5,000 units of LH Ross preferred stock, priced at \$1,400 per unit. According to the 55-page private placement memorandum dated January 6, 2003 ("2003 PPM"), a unit contained 100 shares of convertible preferred stock, valued at \$14 per share, with a dividend of 6% per annum, payable quarterly. The preferred stock was convertible to two shares of common stock after the closing of a public offering of LH Ross securities that the firm intended "to proceed with at some point in the near future as may be required by the underwriters of the IPO or the NASD." The total amount to be raised in the private offering was \$7 million.

4. According to the 2003 PPM, the offering price was arbitrarily determined by LH Ross and did not "bear a relationship to [the firm's] financial position, book value or any other generally accepted criteria of value." The 2003 PPM indicated that the investment involved a "high degree of risk" and should only be considered by investors who can "afford to sustain a loss of their entire investment ... [and] have no need for liquidity in this investment," as there is "no market for the [u]nits." The units were not registered with the SEC or in any state and could not be sold or transferred until registered or unless an exemption from registration applied. LH Ross had taken no meaningful steps toward a public offering of its stock. LH Ross had filed no documents with the SEC, NASD or any state regulatory authority to initiate the public offering process.

5. Several "risk factors" specific to LH Ross were outlined in the 2003 PPM. These included the firm's net loss of more than \$2.2 million in fiscal year 2001 and more than \$1.1 million in fiscal year 2002, as well as the possible need for additional financing to fund

operational needs and meet capital requirements, in addition to proceeds from the offering. The 2003 PPM also disclosed that as of January 2003, there were nine arbitration claims pending against the firm, and that it had been involved in actions brought by the following regulatory authorities: (1) NASD (for violating the taping rule, characterized in the PPM as a technical violation); (2) the Utah Division of Securities (temporarily suspended the firm's license for failing to cooperate during an on-site inspection of a branch office, which the firm was contesting); (3) the State of Florida Department of Banking and Finance (for operating unregistered branch offices and selling securities through an unregistered person, which was settled to avoid litigation according to the PPM); and (4) the State of Connecticut Department of Banking (for actions of brokers not registered in the state, which are described in the PPM as mistakes). In addition, the 2003 PPM disclosed that LH Ross had not paid dividends since the end of 2001 and that the promised dividend in the 2003 Offering may be deferred in the sole and absolute discretion of LH Ross's Board of Directors.

6. On July 23, 2004, Enforcement filed a four-count Complaint against LH Ross, alleging that the firm raised millions of dollars in 2003 and 2004 through the sale of unregistered private placement offerings of convertible preferred stock in LH Ross, employing fraudulent and illegal sales practices in soliciting customers, and in some instances, placing unauthorized purchases of LH Ross preferred stock into customers' accounts. Enforcement also charged that LH Ross failed to respond to NASD requests for documents and information related to the private placement self-offerings.

7. On July 23, 2004, Enforcement also filed a Notice initiating a temporary cease and desist ("TCDO") proceeding against LH Ross pursuant to NASD Procedural Rule 9810.

8. On August 30, 2004, an NASD hearing panel imposed a TCDO on LH Ross. The panel found that LH Ross, through its registered representatives, made material misrepresentations and omissions of fact in connection with the offer, sale or purchase of securities issued by LH Ross in private placement self-offerings in 2003 and 2004, in violation of Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 promulgated thereunder, Section 17(a) of the Securities Act of 1933, and NASD Conduct Rules 2120 and 2110. In addition, the Panel found that LH Ross had placed unauthorized transactions involving securities issued by LH Ross in at least one customer account, in violation of NASD Conduct Rule 2110. Finally, the panel held that the firm's violative conduct or continuation thereof was likely to result in significant dissipation or conversion of assets or other significant harm to investors prior to the completion of the disciplinary proceeding. Accordingly, the panel ordered LH Ross to cease and desist offering or selling any securities issued by LH Ross and to cease and desist placing unauthorized transactions in customer accounts of securities issued by LH Ross. The panel also ordered LH Ross to cease and desist dissipating or converting customers' assets or causing other harm to investors, and described in detail certain acts that LH Ross was required to take or refrain from taking based on evidence regarding LH Ross's apparent misuse of proceeds obtained from the private placement self-offerings.

9. On January 14, 2005, the panel issued its decision in the underlying disciplinary proceeding. The panel found that LH Ross had violated:

- (1) NASD Conduct Rule 2110 and Section 5 of the Securities Act of 1933, by participating in public offerings and sales of unregistered securities issued by LH Ross through a private placement offering in 2003;
- (2) Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 promulgated thereunder, and NASD Conduct Rules 2120 and 2110, by making material misrepresentations and omissions of fact in connection with the offer, sale

or purchase of securities issued by LH Ross through private placement offerings in 2003 and 2004;

- (3) NASD Procedural Rule 8210 and NASD Conduct Rule 2110, by failing to respond to requests for documents and information; and
- (4) NASD Conduct Rule 2110, by placing an unauthorized transaction in at least one customer account.

The panel expelled LH Ross from NASD membership, fined it \$500,000, ordered LH Ross to pay restitution in the amount of \$11,011,008, plus prejudgment interest of at least \$450,113.87, and imposed a permanent cease and desist order. The decision is final and effective. *DOE v. LH Ross & Company, Inc.* Disciplinary Proceeding No. CAF040056 (OHO Jan. 14, 2005) (available at www.nasd.com/web/idcplg?IdcService=SS_GET_PAGE&nodeId=1261).

B. Leventis made material misrepresentations and failed to disclose material facts to customers regarding the LH Ross private placement offering.

10. Several registered representatives associated with LH Ross were involved in soliciting customers to invest in the private placement offering. Leventis was one of the registered representatives who made material misrepresentations of fact and omissions of fact to several customers in connection with the private placement offering.

Customer DM of California

11. In 2003, DM had an account with LH Ross and Leventis was his broker. In or around March 2004, Leventis recommended that DM invest in the 2003 LH Ross private placement offering.

12. In an effort to convince DM to invest in the offering, Leventis told DM that shares had just become available for DM to purchase at \$14 per share because another investor had died, but that DM would need to act quickly if he wanted to purchase the shares. Leventis told him that the stock had already increased to approximately \$20 per share and that it would likely

double in value once the public offering occurred. Leventis further told DM that “everything was on track” and that the firm would be go public within a few weeks. Leventis also told DM that LH Ross would pay dividends on the shares every six months.

13. Leventis failed to disclose any of the risk factors, such as that fact that there was no current market for the shares and that they could not be sold unless and until the firm went public. Leventis did not disclose to DM that LH Ross was not paying dividends and had not paid dividends since 2001. Leventis did not disclose that the proceeds from the offering enabled LH Ross to maintain its required net capital despite steady and significant operating losses during 2002 and 2003. Leventis did not disclose the firm’s extensive regulatory history, including the disciplinary actions filed or settled by NASD and several states. Moreover, DM never received the 2003 PPM that set forth the risks associated with investing in a private placement, contained financial information relating to the firm, and set forth the firm’s disciplinary history.

14. On or about March 16, 2004, based on Leventis’s misrepresentations and omissions of material facts, DM purchased 2,000 shares (20 units) for \$28,000. DM never received any dividend payments.

15. As a result of LH Ross’s demise, the shares of preferred stock that DM purchased for approximately \$28,000 are essentially worthless.

Customer RP of Nebraska

16. In or about April 2003, RP received a cold call from Leventis regarding an investment opportunity. At Leventis’s urging, RP then opened an account with LH Ross and Leventis was his broker. In or around December 2003, Leventis contacted RP and recommended that he invest in the 2003 LH Ross private placement offering.

17. In an effort to convince RP to invest in the offering, Leventis told RP that a few units of preferred stock had just become available because another investor had recently died. Leventis told RP that the firm would be going public by April 2004 and that an analyst already had valued the stock at \$17.00 per share. RP subsequently received a customer questionnaire and subscription agreement, but he never received the 2003 PPM.

18. Leventis failed to disclose any of the risk factors, such as the fact that there was no current market for the shares and RP could lose his entire investment. Leventis did not disclose that LH Ross had suffered operating losses in 2001 and 2002. Leventis did not disclose that the proceeds from the offering enabled LH Ross to maintain its required net capital despite steady and significant operating losses during 2002 and 2003. Leventis did not disclose the firm's extensive regulatory history, including the disciplinary actions filed or settled by NASD and several states.

19. Based on Leventis's misrepresentations and omissions of material fact, RP purchased 2,000 shares (20 units) in the 2003 offering for \$28,000 on or about January 30, 2004.

20. As a result of LH Ross's demise, the shares of preferred stock that RP purchased for approximately \$28,000 are essentially worthless.

Customer RH of Wisconsin

21. In 2003, RH had an account at LH Ross and Leventis was his broker of record. In November 2003, Leventis recommended that RH invest in the 2003 LH Ross private placement offering.

22. In an effort to convince RH to invest in the offering, Leventis told RH that the LH Ross public offering would occur in the middle of August 2004. Leventis also told RH that the

preferred stock would split 2-for-1 to common shares and that the common shares would sell for \$17.00 per share once the firm went public.

23. Leventis failed to disclose to RH any of the risks associated with investing in a private placement offering. For instance, Leventis never informed RH that LH Ross may not go public and that he could lose his entire investment. Leventis never informed RH that LH Ross had suffered operating losses in 2001 and 2002. Leventis did not disclose that the proceeds from the offering enabled LH Ross to maintain its required net capital despite steady and significant operating losses during 2002 and 2003. Leventis did not disclose the firm's extensive regulatory history, including the disciplinary actions filed or settled by NASD and several states.

24. On or about December 4, 2003, based on Leventis' representations, RH purchased 1,000 shares (10 units) of LH Ross preferred stock for \$14,000. He later purchased an additional 1,000 shares (10 units) for \$14,000 in February 2004 and 8,000 shares (80 units) for \$112,000 in March 2004. RH invested a total of \$140,00 in the 2003 offering based on Leventis's representations.

25. As a result of LH Ross's demise, the shares of preferred stock that RH purchased for \$140,000 are essentially worthless.

Cause One

Misrepresentations and Omissions of Material Fact and Baseless Predictions of Future Performance

NASD Conduct Rules 2110 and 2120, Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, and Section 17(a) of the Securities Act of 1933

26. Paragraph numbers 1 through 25 above are realleged and incorporated herein by reference.

27. Leventis sold interests in the 2003 Offering to DM (\$28,000), RP (\$28,000), and RH (\$140,000), among others. As set forth above, Leventis made numerous misrepresentations, including baseless price predictions of future performance, and failed to disclose material facts to his customers. Leventis's misrepresentations and omissions were intended to induce, and did induce, DM, RP and RH to purchase LH Ross preferred stock and therefore were made in connection with the offer or sale of a security.

28. Leventis, by engaging in the conduct referenced in paragraphs 1 through 25, with scienter, directly or indirectly, in connection with the offer or sale of securities, by the use of means or instrumentalities of interstate commerce, or the mails: 1) employed devices, schemes or artifices to defraud; 2) made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or 3) engaged in acts, practices or courses of business that operated or would operate as a fraud or deceit upon purchasers or prospective purchasers in violation of Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

29. The acts, practices and conduct by Leventis alleged in paragraphs 1 through 25 constitute separate and distinct violations of Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, as well as NASD Conduct Rules 2110 and 2120.

Prayer for Relief

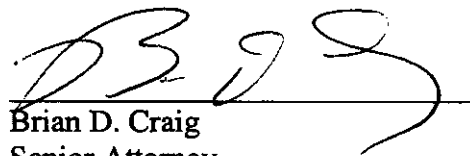
WHEREFORE, Complainant respectfully requests:

- A. Findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;

- B. An order imposing sanctions upon the Respondent in accordance with NASD Rule 8310;
- C. An order imposing such costs of any proceeding as are deemed fair and appropriate under the circumstances in accordance with NASD Rule 8330;
and
- D. An order imposing any other fitting sanction.

November 1, 2005

Respectfully submitted,



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