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IN THE DISTRICT COURT OF THE FOURTH JUDICIAL DISTRICT

OF THE STATE OF IDAHO, IN AND FOR THE COUNTY OF ADA

STATE OF IDAHO, Department of Finance, Plaintiff,	Civil No. 98183
vs.	VERIFIED COMPLAINT
JUDSON TWITE MOLLER, Defendant.	Fee Category: Exempt

Comes now the STATE OF IDAHO, Department of Finance, Belton J. Patty, Director, by and through counsel, to complain and allege as follows:

JURISDICTION

I.

This action is brought under the provisions of the Idaho Securities Act, Title 30, Chapter 14, Idaho Code, and in particular Idaho Code §30-1442 wherein the Director of the Idaho Department of Finance (Department) is empowered to bring actions seeking injunctive and other relief against persons who have

either violated or are about to violate any provision of the Idaho Securities Act or any Rule thereunder.

VENUE

II.

The acts and practices alleged herein comprising violations of law by the above-named Defendant occurred in the conduct of trade and commerce in Ada County, and elsewhere in the State of Idaho.

DEFENDANT

III.

Defendant JUDSON TWITE MOLLER (Moller) was at all relevant times a registered agent of Prudential Securities Incorporated (PSI) (formerly Prudential-Bache Securities, Inc.). He was employed at the PSI Boise, Idaho branch office. His last known address was 109 Braemere, Boise, Idaho 83702.

BACKGROUND

IV.

Moller began employment in the securities industry in 1969. He was employed as a registered representative at E.F.Hutton from 1980 - 1987. He moved to PSI on July 29, 1987 and began to solicit the customer base he had developed at Hutton.

V.

Moller served as a registered agent of PSI from July 29, 1987 through June 4, 1993, on which date he was terminated by PSI. He had been accorded the title "Vice President - Investments" by PSI. While employed by PSI at the Boise branch, Moller undertook a

pattern of securities and options trading which violated the Idaho Securities Act. Beginning in late summer, 1993 PSI reimbursed customers of Moller for losses suffered in their accounts, in the total amount of $797,518.49. Moller is not currently licensed in the securities industry.

Unauthorized Trading/Discretionary Trading

Without Proper Authorization/

Undisclosed Options Program

VI.

Moller employed options "strategies" which allowed him to buy and sell options, at his discretion, once an initial securities position had been agreed to with a customer. Once the stock position was established, Moller would "put-on" the options positions (e.g., covered call writing, call/put writing, ratio writing, etc.). As the options positions expired, Moller would write new options positions against the outstanding securities or institute new naked options positions. The nature, type and expiration date of new options positions were at the direction and discretion of Moller. Customers were not contacted by Moller as this activity occurred.

VII.

Moller expressed the opinion to the Department that the type of discretion he exercised when rolling options was "time and price" discretion, and as such did not need to be documented as use of discretion in an account. In fact, Moller's activities

constituted unauthorized trading and/or discretionary trading without proper authorization.

VIII.

Moller's trading activities also constituted implementation of an "options program", i.e. the systematic use of one or more options strategies in a discretionary account. In addition to his failure to obtain the proper authorization for discretionary trading, Moller also failed to provide to the affected customers the proper disclosure documents required by various securities self-regulatory organizations to execute options programs.

IX.

Although directed by at least one customer that no more trades be conducted in his account without his consent, Moller continued to conduct options trades in the account. These trades were not authorized.

Unsuitable Recommendations

X.

Moller traded beyond the risk tolerance of some of his clients, and the resulting recommendations were unsuitable. Those clients included persons who were elderly, retired, widowed or unsophisticated investors. In addition, Moller overleveraged accounts with options positions which were excessive in light of client financial resources.

XI.

Options transactions involve special, recognized risks not

attendant to other securities transactions. Many of the options positions put on by Moller assumed an even higher risk nature due to the selection of underlying securities, i.e. aggressive, volatile, biotechnology stocks. The recommendations of those high risk securities, and options thereon, were unsuitable for several of Moller's clients.

XII.

Moller's options practices included the sale of fractionally-priced call options against underlying stock. That practice is unsuitable for almost all retail customers and in this case only served to generate a commission stream benefiting the broker which outweighed any benefit to the customers. The recommendations of the sale of fractionally-priced call options against underlying stock were unsuitable for several of Moller's clients.

XIII.

Moller employed the concurrent use of short put options in conjunction with a covered call option against the underlying stock. A short put position is the functional equivalent of a covered call position. Therefore, it is never efficient to engage in both transactions at the same time. One or the other will be better-priced (more efficient) than the other at any point in time. A prime benefit derived from the short put positions is the augmented commission stream made possible by the lower margin requirements of a short put option as compared to a second separate purchase of common stock and sale of a covered call. The recommendations of the concurrent use of short put options in

conjunction with a covered call option against the underlying stock were unsuitable for several of Moller's clients.

Omissions

XIV.

Moller employed options "strategies". Moller failed to advise those customers of the specific risks associated with the strategies he was employing. Moller failed to advise naked call writers that they were potentially at risk for an unlimited amount of capital.

XV.

Moller recommended the purchase of Molecular Biosystems stock and various options positions on the stock without first advising clients that Molecular Biosystems was a recommendation of Moller only, and not a recommendation of the PSI research department; that Molecular Biosystems was not followed by PSI research and that PSI had no opinion on the stock; that Molecular Biosystems was a volatile security and very dependent upon Food and Drug Administration approval of a new product; that Molecular Biosystems lacked ratings by an acknowledged source such as Standard & Poor's; and, that Moller had failed to complete a "solicitation approval form" as required by PSI in order to solicit transactions in stock which is not followed by firm research and not rated by an acknowledged outside source.

XVI.

Moller recommended the purchase of Centocor stock and various

options positions on the stock without first advising clients of the high risk nature of the underlying development company; that Centocor stock was volatile; and, that PSI research considered the stock, and hence any options on the stock, high risk.

False Books and Records

XVII.

Moller filled out an options form update to indicate that a customer had thirty years' experience in real estate investing. The customer's only relevant real estate investing consisted of ownership of her primary residence. Moller further indicated that the customer was employed when in fact the customer was only serving in a volunteer capacity with a local charity. The income stated on the customer's option form was from her withdrawals of monies from her PSI securities account, and not from employment.

XVIII.

Moller indicated on a new account and options form that a customer had fifty years of investment experience instead of the six years of investment experience testified to by the customer.

XIX.

Moller incorrectly indicated the year of a customer's birth when filling out her option form for submission to the branch manager and the firm for approval to trade options. The result was that the elderly customer appeared to be twelve years younger in her information profile.

Failure to Cease Trading When Ordered

XX.

On July 17, 1992 one of Moller's customers directed, in writing to Moller, that no further trades be conducted in his account without the client's consent. Moller conducted additional options trades in the account, without the approval of the customer, in October, 1992.

Analysis of Customer Accounts

XXI.

The above patterns of violative securities and options trading occurred in the accounts of various Moller clients, including, but not limited to, the following five clients:

A. Customer H

In April, 1989 Customer H was 56 years old. H left all family financial decisions, including investing, to her husband. After his death in April, 1989 H contacted Moller to invest the balance of her financial assets, approximately $350,000. Her husband had conducted some securities business with Moller prior to his death. H advised Moller that she had no investment experience, and that she would need to rely on her invested assets as her sole source of income. H established a personal account with Moller and a sizable IRA account. Moller arranged H's personal account for an automatic withdrawal of $2,000 per month.

H trusted Moller to direct every investment made in her account. She does not understand the concept of margin trading,

has become vaguely familiar with option trading, has never invested in commodities, and her only real estate investments consisted of her family residences.

Her initial individual trading account (AEY 056929), following the death of her husband, was opened on April 26, 1989. The customer account form indicates that H was retired, with an annual income of "5 figures", net worth of "5 figures", and liquid net worth of "5 figures." No previous investment experience is indicated.

An option form was executed in this account on April 28, 1989, and approved by the branch manager on May 1, 1989. It indicates that H had one year of options experience and three years of stocks and bonds investment experience. Her investment objectives were checked as income and investment hedge. The form indicates that H was retired, with annual income of "5 figures", net worth of "5 figures", and liquid net worth of "5 figures." A "level 2B" trading was requested, which would allow covered calls, spreading listed options, straddles and combinations, and writing puts.

Two trades were conducted in this account, but were immediately reversed and corrected. The account was closed because it required a different account number under PSI policy.

H then opened an individual trading account under account number AEY 862283, on May 5, 1989. The option form which was executed for the previous account (AEY 056929) was used for the new account. The old account number on the form was merely lined

out, with the new account number written above it.

On May 12, 1989 an option information and agreement form was completed for H's IRA account (AEY R06771), requesting a trading level 2A (covered calls plus buying options). Added to this form was information that H's annual income was in excess of $100,000, her net worth was in excess of $100,000, and her liquid net worth was in excess of $100,000. In fact, her income, net worth and liquid net worth had not changed from the previous month.

On June 16, 1989, account AEY 862283 was "bulked" to account AEY 866572 because, pursuant to a PSI policy, it required a number in a series different from the one which had been assigned to it. An option update form was completed on that date. Level 3 options trading (the highest level) was requested, which qualified the account for all types of transactions, including selling of uncovered naked puts and calls.

In November, 1989, account AEY 866572 was "bulked" to account AEY 061078, again as a result of a PSI policy which required that it be assigned a number in a different series. An option update form was executed under this new account number on January 3, 1991. This form was to update background and financial information. It was indicated on this form that H was not retired, but that she was employed by a local charity in "promotion". Her income was stated as $30,000, net worth was $200,000, and liquid net worth was $150,000. It was indicated on the form that H had 10 years' investment experience, with 30 years of investment experience in real estate. Her investment

objectives now included speculation. Level 3 trading was again requested.

In fact, in January, 1991 H was still retired, and worked only as a volunteer with the local charity. Her only income was withdrawals from her PSI account. Her investment objectives had not changed since the inception of her account. Her only real estate investment experience was owning her residences.

The trading dates in H's account were April 1, 1989 through May 31, 1993. The total number of trades in that period were 569. H incurred a $144,840.40 realized loss.

Account losses were largely due to excessive stock market risk exposure created through the sale of put options on individual stocks in sufficient number to achieve the functional equivalent of a leveraged, or margined, stock portfolio with greater risk than a fully invested portfolio of stocks.

Aggravating this leveraged stock market exposure was an over-concentration in just a few issues at any one time, causing the portfolio to succumb to considerable specific, as opposed to market, risk of individual securities. During the second, third and fourth quarters of 1991 the account was frequently invested in only two aggressive biotech stocks.

H's option activity was characterized by the sale of fractionally priced options. This strategy was inadvisable for H by reason of the disproportionate impact of commission costs on the small numbers involved, and the tendency of such options (usually short term and out-of-the-money) to expand in premium if

the underlying stock advances. Option commissions alone accounted for 60% of H's total commissions.

Based on an analysis of H's accounts from April, 1989 through January, 1993, commissions and margin costs exceeded 60% of H's total losses. The excessively high trading volume is evidenced by a cost equity ratio of 25% annualized in her individual account, which reflects the percentage of return on her average net equity needed in order to pay stockbroker commissions and other expenses. In other words, the account needed to exceed a 25% annual return to just pay Moller and PSI before accruing any benefit to H. Commissions charged H totaled $51,236 in her individual account, and $32,809 in her IRA account.

The trading recommendations made to H were unsuitable. This recent widow had no personal investment experience. After her husband's death she was left with no income or pension and a need for income to be generated from her account. These conditions and her low tolerance for risk should have precluded all but the most conservative of strategies.

After making and settling a claim against PSI, H was reimbursed $166,848.90.

B. Customer C

Customer C is currently 81 years old. C has had two years of college education, and has been employed most of his adult life as an auto mechanic. His investment experience prior to opening his first brokerage account consisted solely of purchasing bank issued certificates of deposit. He began investing in securities in

approximately 1981 at E.F. Hutton; his first investment was in municipal bonds. Moller became his account executive in 1983. C was widowed in January, 1985. C's investment objective over the years has been long term growth.

Moller began to write covered call options for C during the second half of 1985. The account at Hutton was approved for only covered calls until March, 1986 when the first naked put transaction was conducted in the account. Most of C's purchases were in old-line companies. The account continued to predominantly utilize a covered call strategy for most of 1986 with very occasional, short-term, far-out-of-the-money, naked calls, and a few naked put transactions. These transactions were rare and in contract quantities of 2 to perhaps 5 contracts. During this time, Moller began to have C use his municipal bonds as collateral to trade on margin. By the end of 1986, C was fully leveraged and had an outstanding margin balance of $130,000. C's account remained leveraged throughout 1987 but the account did virtually no naked calls and a very few naked puts. C transferred his account to PSI at or near the time that Moller joined the firm (1987); at that time C was 74 years old.

The primary strategies employed by Moller in C's account at PSI were: buy-writes; sale of uncovered put options, often in conjunction with buy-writes; sale of uncovered call options; sale of put/call combinations; ratio-writing; and, leverage.

On balance, the quality of the stocks were conservative blue-chip names. Apart from an inordinately large loss from a single

aggressive stock (Centocor $95,970), losses stemmed primarily from both speculative and aggressive option transactions in otherwise conservative blue-chip names as well as from more aggressive issues (e.g. Molecular Biosystems $16,400).

Account losses were largely due to excessive stock market risk exposure created through the sale of put options on individual stocks in sufficient number to achieve the functional equivalent of a leveraged, or margined, stock portfolio with twice the risk of the stock market.

The account normally had positions in only 8-10 names, and sometimes fewer. The resulting concentration contributed to significant losses due to specific risk of particular stocks, especially in 1992, even when the stock market as a whole was little-changed in price.

Based on an analysis of C's account from August, 1987 through October, 1992, the account was marked by excessively high trading volume as evidenced by a cost equity ratio of 17.2% based on commissions of $77,759 over a 5-year period. This was also partly attributable to a concentrated use of near-term put and call options, which assured frequent turnover.

C claims that Moller neither requested nor received authorization for any of the option trades.

The trading recommendations made to C were unsuitable. C had no investment education or experience. He did not understand the option strategies that were being undertaken in his account. His low tolerance of risk and lack of understanding did not dissuade

Moller from undertaking aggressive and speculative option strategies with a leveraged stock market exposure equaling 200% of C's total net worth. Additionally, in consideration of C's advanced age, it is categorically unsuitable for aggressive risk, much less speculation, to be undertaken.

The trading dates in C's account were August 1, 1987 through August 31, 1993. The total number of trades in that period were 603. C incurred a $171,540.62 realized loss. After making and settling a claim against PSI, C was reimbursed $205,753.74.

C. Customer R

Customer R was a 66 year old retiree when she opened an account with Moller at E.F. Hutton in May, 1986. She moved her account to PSI in October, 1987.

R's account was traded in much the same manner as Customers H and C. Moller utilized discretion and began to conduct naked calls as well as naked puts, combinations and ratio writing. R's account was leveraged and placed in higher-risk securities giving this retiree significant risk exposure she did not understand. The trading recommendations made to R were unsuitable.

During the period of February through April, 1992 the trading activity in this account included 37 transactions and generated $4,166 in commission income. Account losses totaled $50,232, or 73% of account equity, while over the same three-month period the overall stock market actually advanced 4.8%. These results were the product of leverage and over-concentration in high risk biotechnology issues via the use of options.

R passed away in August, 1992.

The trading dates in R's account were October 1, 1987 through August 31, 1992. The total number of trades in that period were 328; total commissions paid were $47,119. R realized a profit of $21,034.18.

D. Customer D

Customer D was a 76 year old, retired widow when she opened her account with Moller at E.F. Hutton in 1985. At that time she had an annual income of less than $15,000. Her investment objectives were income with moderate growth.

The first option activity at Hutton was in October, 1986 when her income was stated as between $20,000 and $25,000. Moller sought to have the D account approved for every type of equity option except naked calls. However, E.F. Hutton compliance only approved the account for covered call writing and naked puts. According to the E.F. Hutton options form, D had no previous options experience and was employed as a "caretaker of houses".

D moved her account to PSI when Moller transferred. Her new customer account form at PSI reported her income as $20,000 with income as the only investment objective. The PSI options form notes income of $15,000 and misstates D's options experience as three years, instead of one, as well as a birthdate of 12/8/20, instead of 12/8/08. The effect of misstating D's birthdate was to present to supervisory personnel a profile of a 64 year old person, instead of one who was 76.

The trading dates in D's account were August 1, 1987 through

September 30, 1991. The total number of trades in that period were 257. D incurred a $28,688.46 realized loss.

The net damage in the account was directly attributable to the toll taken by commissions and margin interest. Commissions alone, primarily stemming from the frequent turnover of short-term options, exceeded the pre-commission trading losses in the account. Margin interest charged approximated 80% of the dividend income earned by stocks.

Account losses were also largely due to excessive stock market risk exposure created through the sale of put options on individual stocks in sufficient number to achieve the functional equivalent of a leveraged, or margined, stock portfolio with greater risk than a fully invested portfolio of stocks. Aggravating this leveraged stock market exposure was an over-concentration in just a few issues at any one time, causing the portfolio to succumb to considerable specific as opposed to market, risk of individual securities. At one point in the second quarter of 1991, the entire portfolio was 100% concentrated in Molecular Biosystems, a stock not followed on a research basis by Prudential, not ranked by Standard & Poor's, but nonetheless placed in the account in contravention of PSI guidelines.

The account was marked by excessively high trading volume as evidenced by a cost equity ratio of 31.3% based on commissions of $36,761 over a four year period. This was also partly attributable to a concentrated use of near-term put and call options, which assured frequent turnover.

Prudential Strategic Income Fund, one of the few true income vehicles bought for D was at the highest end of the risk spectrum of PSI's global bond funds.

The trading recommendations made to D were unsuitable. D had little investment experience. Her low tolerance of risk did not dissuade Moller from undertaking aggressive and speculative option strategies with a leveraged stock market exposure sometimes equaling 190% of D's liquid net worth. In consideration of D's advanced age, it was categorically unsuitable for aggressive risk, much less speculation, to be undertaken by any means.

PSI reimbursed D $28,688.46.

E. Customer P

Customer P transferred her accounts to Moller at PSI on September 9, 1987. P was at that time a 55 year old, widowed school teacher. She was interested in options and indicates that she was willing to speculate to some degree. Her account forms stated that P was earning $35,000 annually and that her net worth was $200,000. P had no options experience prior to opening the account at PSI.

P's account before it was transferred may be characterized as conservative; it contained a conservative mutual fund and several publicly traded real estate investment trusts. By December, 1987 P was placed in naked calls and naked puts. The mutual fund was sold in February, 1988.

Although P directed Moller to cease selling naked puts, Moller continued that trading activity. Because of her difficulty

in directing Moller, P closed her account in April, 1990.

The trading dates in P's account were September 1, 1987 through April 30, 1990. The total number of trades in that period were 61. Total commissions paid by P to Moller and PSI were $4,097. P incurred a $11,604.55 realized loss; PSI reimbursed P $11,604.55.

The trading recommendations made to P were unsuitable. Her account experienced excessive option trading over short time intervals combined with the use of fractionally-priced options. The commissions generated by this options activity were excessive in the context of the minimal advantage that could be expected from such fractionally priced options, and in consideration of the high percentage of the option premium that was consumed by commissions.

COUNT ONE

The allegations contained in paragraphs I through XXI are hereby realleged as if fully set forth.

XXII.

Moller offered and sold securities to individuals in this State in violation of the Idaho Securities Act, Idaho Code §30-1403(2), in that he omitted to state material facts which, in the light of the circumstances under which they were made, were necessary to make his other statements not misleading. Omissions of Moller include, but are not limited to the following:

A. Moller failed to disclose that he was utilizing options

programs, and that those programs required written disclosure documents explaining the nature and risks of such programs and required permission of PSI.

B. Moller failed to disclose to naked call writers that they were potentially at risk for an unlimited amount of capital.

C. Moller failed to disclose that Molecular Biosystems was a recommendation of Moller only, and not a recommendation of the PSI research department; that Molecular Biosystems was not followed by PSI research and that PSI had no opinion on the stock; that Molecular Biosystems lacked ratings by an acknowledged source such as Standard & Poor's; and, that Moller had failed to complete a "solicitation approval form" as required by PSI in order to solicit transactions in stock which is not followed by firm research and not rated by an acknowledged outside source.

D. Moller failed to disclose that Molecular Biosystems was a volatile security and very dependent upon Food and Drug Administration approval of a new product.

E. Moller failed to disclose that Centocor was a volatile stock and the PSI research considered the stock, and hence any options on the stock, high risk.

F. Moller failed to disclose the risks specific to his options strategies and programs.

XXIII.

Moller violated Idaho Code §30-1403(2).

COUNT TWO

The allegations contained in paragraphs I through XXIII are hereby realleged as if fully set forth.

XXIV.

Moller offered and sold securities to persons in this State in violation of the Idaho Securities Act, Idaho Code §30-1403(3), in that he engaged in acts, practices, and courses of business which operated as a deceit upon offerees and investors. Moller's acts, practices and courses of business which operated as a deceit include, but are not limited to, the following:

A. The pattern of omissions referred to in paragraphs XIV - XVI, and XXI, above. The omission of material facts constitutes a deceptive and manipulative practice, and hence a practice which operates as a deceit upon persons, as defined in Rules 110 and 111.02. of the Rules pursuant to the Idaho Securities Act (IDAPA 12.01.08.110; 111.02).

B. Falsifying customer options forms. The falsification worked a deceit upon the customers by precluding effective review by local supervisors, New York compliance officers of PSI, and the Department. The falsification also worked a deceit upon PSI and the Department by preventing those entities from accurately assessing the suitability of specific options trading strategies for Moller's clients.

C. Failing to designate customer accounts as discretionary. This practice worked a deceit upon the customers by precluding the additional protective review accorded such accounts by local supervisors, New York compliance officers of PSI and the Department.

D. Inducing trading in customer accounts which was excessive in frequency in view of the financial resources and character of the accounts, and recommending the purchase of securities in amounts which were inconsistent with the reasonable expectation that the customers had the financial ability to meet the commitment, as defined in Rule 117.03.

E. Unauthorized transactions, as described above and defined in Rule 117.08.

F. Unsuitable recommendations, as described above and defined in Rule 118.

XXV.

Moller has violated Idaho Code §30-1403(3).

COUNT THREE

The allegations contained in paragraphs I through XXV are hereby realleged as if fully set forth.

XXVI.

Moller offered and sold securities to individuals in this State in violation of Rule 124 in that he committed substantial violations of National Association of Securities Dealers (NASD) Rules of Fair Practice and similar rules established by other

self-regulatory organizations. The rules violated include, but are not limited to, the following:

A. NASD Rule of Fair Practice, Art. III, Sec. 15, which prohibits the exercise of any discretionary power in a customer's account unless the customer has given prior written authorization, and the account has been accepted as such.

B. NASD Rule of Fair Practice, Art.III, Sec.33(a)(sic)(18)(A) [formerly Art.III, Sec.33, Appendix E, Sec.18(a)], which prohibits the exercise of any discretionary power with respect to trading in option contracts in a customer's account, except in compliance with Sec. 15, Rules of Fair Practice, and unless the written authorization of the customer shall specifically authorize options trading in the account.

C. NASD Rule of Fair Practice, Art.III, Sec.33(a)(sic)(18)(B) [formerly Art.III, Sec.33, Appendix E, Sec.18(b)], which requires that a record be made of every transaction in option contracts in respect to which a member organization or person associated with a member has exercised discretionary authority, clearly reflecting such fact.

D. NASD Rule of Fair Practice, Art.III, Sec.33(a)(sic)(18)(C) [formerly Art.III, Sec.33, Appendix E, Sec.18(c)], which requires that where the discretionary account utilizes options programs, the customer shall be furnished with a written explanation of the nature and risks of such programs.

E. NASD Rule of Fair Practice, Art.III, Sec.33(a)(sic)(19)(A) [formerly Art.III, Sec.33, Appendix E, Sec.19(a)], which provides that no member organization or person associated with a member shall recommend to any customer any transaction for the purchase or sale of an option contract unless such member or person associated therewith has reasonable grounds to believe, upon the basis of information furnished by such customer after reasonable inquiry by the member or person associated therewith concerning the customer's investment objectives, financial situation and needs, and any other information known by such member or associated person, that the recommended transaction is not unsuitable for such customer.

F. NASD Rule of Fair Practice, Art.III, Sec.33(a)(sic)(19)(B) [formerly Art.III, Sec.33, Appendix E, Sec.19(b)], which provides that no member or person associated with a member shall recommend to a customer an opening transaction in any option contract unless the person making the recommendation has a reasonable basis for believing, at the time of making the recommendation, that the customer has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risks of the recommended transaction, and be financially able to bear the risks of the recommended position in the option contract.

G. NASD Rule of Fair Practice, Art.III, Sec.35A(d), which provides that no person associated with a member organization

shall utilize any communications to any customer concerning options which contains any untrue statement or omission of a material fact or is otherwise false or misleading.

H. New York Stock Exchange (NYSE) Rule 408(a), which provides that no employee of a member organization shall exercise any discretionary power in any customer's account without first obtaining written authorization of the customer.

I. NYSE Rule 408(b), which provides that no employee of a member organization shall exercise any discretionary power in any customer's account, without first notifying and obtaining the approval of another person delegated with authority to approve the handling of such accounts. Every order entered on a discretionary basis by an employee of a member must be identified as discretionary on the order at the time of entry. Such discretionary accounts shall receive frequent appropriate supervisory review by a person delegated such responsibility.

J. NYSE Rule 408(c), which provides that no employee of a member organization exercising discretionary power in any customer's account shall effect purchases or sales of securities which are excessive in size or frequency in view of the financial resources of such customer.

K. NYSE Rule 723, which provides that no employee of a member organization shall recommend to a customer an opening transaction in any option contract unless the person making the recommendation has a reasonable basis for believing, at

the time of making the recommendation, that the customer has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risks of the recommended transaction, and is financially able to bear the risks of the recommended position in the option contract.

L. NYSE Rule 724(a), which provides that no employee of a member organization shall exercise any discretionary power with respect to trading in option contracts in a customer's account unless such customer has given prior written authorization. Every discretionary order shall be identified as discretionary on the order at the time of entry.

M. NYSE Rule 724(b), which provides that where the discretionary account utilizes options programs involving the systematic use of one or more options strategies, the customer shall be furnished with a written explanation of the nature and risks of such programs, including the cumulative history or unproven nature of the program and its underlying assumptions.

N. NYSE Rule 724(c), which provides that no employee of a member organization having discretionary power over a customer's account shall, in the exercise of such discretion, execute or cause to be executed therein any purchases or sales of option contracts which are excessive in size or frequency in view of the financial resources in such account.

O. NYSE Rule 724(d), which provides that a record shall be made

of every transaction in option contracts in respect to which an employee of a member organization has exercised discretionary authority, clearly reflecting such fact.

P. NYSE Rule 791(a), which provides that no employee of a member organization shall utilize any communication to any customer concerning options which contains any untrue statement of omission of a material fact or is otherwise false or misleading.

Q. Chicago Board Options Exchange (CBOE) Rule 9.9, which provides that every registered representative who recommends to a customer the purchase or sale of any option contract shall have reasonable grounds for believing that the recommendation is not unsuitable for such customer on the basis of the information furnished by such customer after reasonable inquiry as to his investment objectives, financial situation and needs, and any other information known by such member. No registered representative shall recommend to a customer an opening transaction in any option contract unless the person making the recommendation has a reasonable basis for believing at the time of making the recommendation that the customer has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risks of the recommended transaction, and is financially able to bear the risks of the recommended position in the option contract.

XXVII.

Moller has violated Rule 124 of the Rules pursuant to the Idaho Securities Act (IDAPA 12.01.08.124).

PRAYER FOR RELIEF

Wherefore, Plaintiff prays for a Judgment in favor of Plaintiff and against Defendant as follows:

A. That Defendant be adjudged to have violated the Idaho Securities Act and Rules thereunder.

B. That Defendant be permanently enjoined from engaging in any acts, practices or omissions which would constitute violations of the Idaho Securities Act and Rules thereunder, and in particular, that he be permanently enjoined from:

While engaged in or in connection with the offer, sale or purchase of any security issued by Defendants, or any other issuer:

(1) Omitting to state a material fact necessary in order to made the statements made, in light of the circumstances under which they are made, not misleading;

(2) Engaging in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person;

(3) Violating Rule 124 of the Rules pursuant to the Idaho Securities Act (IDAPA 12.01.08.124).

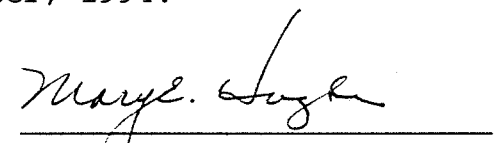
C. That Defendant be prohibited from claiming the availability of, using, or offering or selling securities, under any exemptions

under the Idaho Securities Act without receiving the prior written consent of the Director.

D. That Plaintiff be awarded attorney's fees and costs incurred in the preparation and the prosecution of this action, and if judgment is taken by default herein, that $5,000 is a reasonable attorney's fee.

E. Such other and further relief as this Court may deem equitable and just.

DATED this 19th day of September, 1994.



MARY E. HUGHES
Deputy Attorney General
Department of Finance

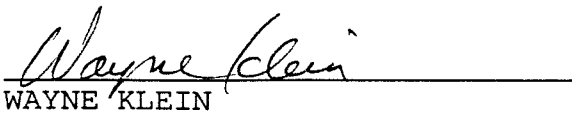
VERIFICATION

STATE OF IDAHO)
) ss:
County of Ada)

WAYNE KLEIN, Bureau Chief for the Securities Bureau of the Department of Finance, STATE OF IDAHO, being first duly sworn, deposes and says:

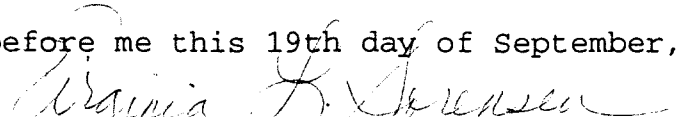
That he has read the foregoing verified complaint; that he knows the contents thereof; and that the same are true to the best of his knowledge.

DATED this 19th day of September, 1994.



WAYNE KLEIN

SUBSCRIBED AND SWORN to before me this 19th day of September, 1994.



NOTARY PUBLIC FOR IDAHO
Residing at: Caldwell
My Comm. Exp.: 4/5/00