

BEFORE THE  
DIVISION OF SECURITIES  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
STATE OF WISCONSIN

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In the Matter of  
PRENTICE SECURITIES, INC., and  
LOUIS M. KORNMAN

PETITION FOR ORDER

Respondents.

File No. S-99290(LX)

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The staffs of the Bureau of Licensing & Compliance and the Enforcement Unit, Bureau of Registration & Enforcement, of the Division of Securities, Department of Financial Institutions, State of Wisconsin have conducted an investigation in this matter pursuant to sec. 55 1.56, Wis. Stats., and as a result thereof allege as follows:

1. Prentice Securities, Inc. ("Prentice") is a licensed broker-dealer (CRD #22897) with an address at 90 Broad St., New York, NY 10004;
2. Louis M. Kornman ("Kornman") is a licensed securities agent (CRD #274072) with a business address at 326 E. Mason St., Milwaukee, WI 53202;
3. A. Plumm & Co. ("Plumm") is a Wisconsin corporation with an address at 326 E. Mason St., Milwaukee, WI 53202;
4. Prentice maintains a branch office at 326 E. Mason St., Milwaukee, WI 53202 (the "Milwaukee Office");
5. Kornman is the branch office manager at the Milwaukee Office;
6. In response to several complaints received from investors, the Division performed a branch office review of the books and records of the Milwaukee Office;
7. After the exam the staff obtained documents from Prentice and met with officials of the firm;
8. During 1996, 1997, and 1998, the Milwaukee Office specialized in the offer and sales of high yield corporate bonds (bonds that paid roughly 10% or more);
9. The staff reviewed 20 New Account Forms ("NAFs") chosen at random and interviewed eight investors who were customers of agents working within the Milwaukee Office.
10. According to the NAFs and the interviews, the staff has determined that in some cases the recommendation of the high yield corporate bonds to certain customers was made without reasonable grounds to believe that the recommendations were suitable for such customers on the basis of information furnished by such customers after reasonable inquiry. Such

conduct is deemed by DFI-Sec 4.06, Wis. Adm. Code to be a "dishonest or unethical business practice" or "taking unfair advantage of a customer" and provides a basis, pursuant to sec. 551.34(1)(g), Wis. Stats., for the censure of a licensee;

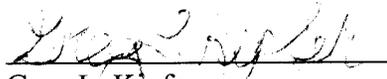
11. The staff reviewed the NAFs that were selected to determine their completeness and the suitability of the investments recommended based on that information. The staff found that:
  - a. Six NAFs had not been updated in at least a decade; and
  - b. Seven were missing vital information about the customer (e. g. net worth, income) with no indication of the client refusing to provide the information;
12. The incomplete or outdated NAFs provided little or no basis for a supervisor to determine if the investments recommended by the agents were suitable for the investors;
13. According to documents provided to the staff and conversations with Prentice, Kornman performed all suitability reviews of customer transactions in the Milwaukee office;
14. The unsuitable recommendations and outdated or incomplete NAFs demonstrate that Kornman and Prentice failed to reasonably supervise agents to assure their compliance with Ch. 551, Wis. Stats in violation of sec. 551.34(1)(j), Wis. Stats., which provides a basis for their censure;
15. During 1996, 1997 and 1998, Kornman and the agents at the Milwaukee office did not regularly and systematically inform their customers that certain of the corporate bonds they were recommending were rated below investment grade;
16. Despite having access to due diligence files compiled by Kornman, Kornman and the agents at the Milwaukee office did not regularly and systematically provide customers information concerning the particular corporate bonds they were recommending so as to give such customers the balanced view of the risks as well as the rewards involved with these issues;
17. The failure of Kornman and the agents at the Milwaukee to regularly and systematically provide customers with balanced information concerning the corporate bonds they were recommending and the failure of Prentice to utilize reasonable supervisory procedures to ensure that they did so, constitute violations of sec.551.34(1)(g)and (j), Wis. Stats., which provide a basis for their censure.
18. The Milwaukee Office was operated pursuant to a facilities management agreement between Prentice and Plumm which provides, in general, that Plumm will operate Prentice's Milwaukee Office, and pay the expenses of doing so, including, but not limited to, hiring a branch manager and staff, and Prentice will provide Plumm with clearing, settlement and execution services for all customers served by Kornman and the agents of the Milwaukee Office.
19. Prentice also entered into a Resident Officer Agreement with Kornman as president of Plumm which provides, in general, that Kornman will establish and manage a Milwaukee

Office for Prentice pursuant to the Facilities Management Agreement with Plumm;

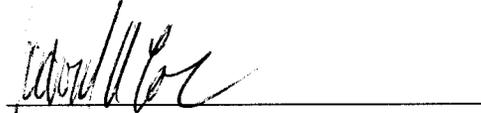
20. The high yield bonds sold to customers at the Milwaukee Office were selected by Kornman, who performed the due diligence with respect to the issued recommended to customers by agents in the Milwaukee office without separate independent supervision by Prentice;
21. According to documents provided to the staff and conversations with Prentice the choice of securities recommended to customers of the Milwaukee Office were made in that office subject only to broad guidelines established and enforced by Prentice. In addition, Prentice determined if the NAFs were completed, served as execution broker, and provided capital to finance any high yield bonds or other securities held in the inventory;
22. As a result of this limited oversight, the operations of the Milwaukee Office were akin to that of a separate broker-dealer; and
23. Plumm, is not, and has not been, a broker-dealer licensed pursuant to Ch. 551.

THEREFORE, the staffs of the Licensing & Compliance Bureau and the Enforcement Unit petition the Administrator for the issuance of the attached Order.

DATED this day 23<sup>rd</sup> of September, 2002.

  
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Greg L. Kipfer  
Examiner  
Enforcement Unit

  
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Helen E. Kluever  
Examiner  
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