

STATE OF MAINE
OFFICE OF SECURITIES
121 STATE HOUSE STATION
AUGUSTA, ME 04333

IN RE:

LH Ross & Company, Inc.
and Franklyn Ross Michelin

NOTICE OF INTENT TO REVOKE A
BROKER-DEALER AND SALES
REPRESENTATIVE LICENSE

05-054

ALLEGATIONS

1. LH Ross & Company, Inc. (“LH Ross”) was incorporated in New York in 1994 and has a principal place of business at 2255 Glades Road, Suite 425W, Boca Raton, Florida 33431. LH Ross has been licensed in Maine as a securities broker-dealer since 1997.
2. Franklyn Ross Michelin (“Michelin”) is the President, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Compliance Officer, and President of LH Ross. He also owns LH Ross Holding Corp., which owns all of LH Ross’ common stock. His business address is 2255 Glades Road, Suite 425W, Boca Raton, Florida 33431. He has been licensed in Maine as a sales representative for LH Ross since 1997.

Recent Disciplinary History

3. On December 15, 2004, a Hearing Panel of the National Association of Securities Dealers (“NASD”) issued a decision against LH Ross 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, LH Ross and Michelin had failed to pay an arbitration award and had filed a meritless pleading. As a result, the Hearing Panel fined them \$50,000, jointly and severally, and ordered them to pay nearly \$70,000 in restitution. In addition, the Hearing Panel suspended Michelin for six months.
4. On January 14, 2005, a Hearing Panel of the NASD issued a decision against LH Ross 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 Rule 10b-5 promulgated thereunder. Specifically, LH Ross 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 LH Ross

through private placement offerings in 2003 and 2004. The Hearing Panel found that LH Ross' activity included an egregious pattern of intentional misconduct and that LH Ross 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 LH Ross to solicit customers to invest in unregistered securities would pose "an extreme threat to the investing public."

5. As a result of its findings, the Hearing Panel in the January 14 decision expelled LH Ross from NASD membership, ordered the firm to permanently cease and desist from violating securities laws and regulations, imposed a \$500,000 fine, and ordered the firm to pay over \$11 million in restitution.
6. The Hearing Panel in the January 14 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 LH Ross 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.
7. Three actions against LH Ross 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 is 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.
8. On January 14, 2005, the State of New Hampshire issued an order, after notice and opportunity for hearing, revoking LH Ross' broker-dealer license for having allowed unlicensed sales representatives to sell unregistered securities.
9. On January 18, 2005, after giving notice and opportunity for hearing, the State of Connecticut issued an order revoking LH Ross' 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, failures to supervise sales agents, and willful violations of state law including the employment of unregistered persons and unauthorized securities transactions in customer accounts.

Grounds for License Revocation

10. Pursuant to 32 M.R.S.A. § 10313(1)(F)(4), the Securities Administrator may, after notice and opportunity for hearing, issue an order revoking a license if she finds that the order is in the public interest and that the licensee is the subject of a cease and desist order by the SEC or another state securities agency, so long as that order is currently effective, was issued within the last five years, and was entered after notice and opportunity for hearing.
11. The State of Connecticut's cease and desist order against LH Ross constitutes grounds to revoke the firm's broker-dealer license in Maine.
12. The NASD Hearing Panel's cease and desist order against LH Ross will constitute grounds to revoke the firm's broker-dealer license in Maine if it is appealed to and affirmed by the United States Securities and Exchange Commission.
13. Pursuant to 32 M.R.S.A. § 10313(1)(F)(1), the Securities Administrator may, after notice and opportunity for hearing, issue an order revoking a license if she finds that the order is in the public interest and that the licensee is the subject of an order by another state securities agency or by the NASD suspending or revoking that person's license, so long as that order is currently effective, was issued within the last five years, and was entered after notice and opportunity for hearing.
14. If currently effective at the time of a final order in this matter, the State of Connecticut's revocation order would constitute grounds to revoke LH Ross' broker-dealer license in Maine.
15. If currently effective at the time of a final order in this matter, the State of New Hampshire's revocation order would constitute grounds to revoke LH Ross' broker-dealer license in Maine.
16. If currently effective at the time of a final order in this matter, the NASD Hearing Panel's decision of December 15, 2004, in which Michelin was suspended for six months from associating with any firm, would constitute grounds to revoke Michelin's sales representative license in Maine.
17. Pursuant to 32 M.R.S.A. § 10313(1)(F)(2), the Securities Administrator may, after notice and opportunity for hearing, issue an order revoking a license if she finds that the order is in the public interest and that the licensee was expelled from membership in a self-regulatory organization registered under the Securities Exchange Act of 1934, so long as that order is currently effective and was issued within the last five years.
18. If currently effective at the time of a final order in this matter, the NASD Hearing Panel's decision of January 14, 2005, expelling LH Ross from membership in the NASD, would constitute grounds to revoke the firm's broker-dealer license in Maine.

19. Pursuant to 32 M.R.S.A. § 10313(1)(B), the Securities Administrator may, after notice and opportunity for hearing, issue an order revoking a license if she finds that the order is in the public interest and that the licensee has intentionally or knowingly violated or failed to comply with a provision of the federal securities laws or other state securities laws, so long as the act constituting the violation would also amount to a violation of the Revised Maine Securities Act (“the Act”) had the acts taken place in Maine.
20. The acts constituting the intentional or knowing violations of the United States Securities Act of 1933 or the United States Securities Exchange Act of 1934, as described in the NASD Hearing Panel decision of January 14, 2005, would also constitute violations of the Act had those acts taken place in Maine. For this reason those illicit acts provide grounds to revoke the firm’s broker-dealer license in Maine.
21. The acts constituting the intentional or knowing violations of state securities laws, as described in the Connecticut order of January 18, 2005, would also constitute violations of the Act had those acts taken place in Maine. For this reason those illicit acts provide grounds to revoke the firm’s broker-dealer license in Maine.
22. The acts constituting the intentional or knowing violations of federal securities laws, as alleged in the first two of the three pending NASD disciplinary actions, would also constitute violations of the Act had those acts taken place in Maine. For this reason those illicit acts provide grounds to revoke the firm’s broker-dealer license and Michelin’s sales representative license in Maine.
23. Pursuant to 32 M.R.S.A. § 10313(1)(J), the Securities Administrator may, after notice and opportunity for hearing, issue an order revoking a broker-dealer or sales representative license if she finds that the order is in the public interest and that the licensee has failed reasonably to supervise sales representatives.
24. The conduct of LH Ross and Michelin as described in the NASD Hearing Panel’s decision of January 14, 2005, amounts to a failure to reasonably supervise sales representatives and therefore constitutes grounds to revoke the firm’s broker-dealer license and Michelin’s sales representative license in Maine.
25. The conduct of LH Ross and Michelin as described in the first two of the three pending NASD disciplinary actions includes the failure to reasonably supervise sales representatives and therefore constitutes grounds to revoke the firm’s broker-dealer license and Michelin’s sales representative license in Maine.
26. The conduct of LH Ross as described in the New Hampshire order of January 14, 2005, amounts to a failure to reasonably supervise sales representatives and therefore constitutes grounds to revoke the firm’s broker-dealer license and Michelin’s sales representative license in Maine.
27. The conduct of LH Ross as described in the Connecticut order of January 18, 2005, includes the failure to reasonably supervise sales representatives and therefore constitutes

grounds to revoke the firm's broker-dealer license and Michelin's sales representative license in Maine.

28. Pursuant to 32 M.R.S.A. § 10313(1)(G), the Securities Administrator may, after notice and opportunity for hearing, issue an order revoking a broker-dealer or sales representative license if she finds that the order is in the public interest and that the licensee has engaged in any unlawful, unethical or dishonest conduct or practice in the securities business.
29. The conduct of LH Ross and Michelin as described in the NASD Hearing Panel's decision of December 15, 2004, includes unlawful, unethical or dishonest conduct or practices in the securities business and therefore constitutes grounds to revoke the firm's broker-dealer license and Michelin's sales representative license in Maine.
30. The conduct of LH Ross and Michelin as described in the NASD Hearing Panel's decision of January 14, 2005, includes unlawful, unethical or dishonest conduct or practices in the securities business and therefore constitutes grounds to revoke the firm's broker-dealer license and Michelin's sales representative license in Maine.
31. The conduct of LH Ross and Michelin as described in the pending NASD disciplinary actions includes unlawful, unethical or dishonest conduct or practices in the securities business and therefore constitutes grounds to revoke the firm's broker-dealer license and Michelin's sales representative license in Maine.
32. The conduct of LH Ross as described in the New Hampshire order of January 14, 2005, amounts to unlawful, unethical or dishonest conduct or practices in the securities business and therefore constitutes grounds to revoke the firm's broker-dealer license and Michelin's sales representative license in Maine.
33. The conduct of LH Ross as described in the Connecticut order of January 18, 2005, includes unlawful, unethical or dishonest conduct or practices in the securities business and therefore constitutes grounds to revoke the firm's broker-dealer license and Michelin's sales representative license in Maine.
34. The Securities Administrator believes that it would be in the public interest to revoke LH Ross' broker-dealer license and Michelin's sales representative license in Maine given the allegations herein.

NOTICE

Pursuant to 32 M.R.S.A. § 10708(6), notice is hereby given that the Securities Administrator intends to issue an Order to Revoke a Broker-Dealer and Sales Representative License pursuant to 32 M.R.S.A. §§ 10313(1).

Pursuant to 32 M.R.S.A. § 10708(2), interested parties have thirty (30) calendar days from the entry of this Notice of Intent to file a written request for a hearing.

Date: February 4, 2005

s/Christine A. Bruenn
Christine A. Bruenn
Securities Administrator

Reviewed by:

Date: February 4, 2005

s/Bonnie E. Russell
Bonnie E. Russell
Assistant Securities Administrator

Presented by:

Date: February 4, 2005

s/Michael W. Atleson
Michael W. Atleson
Staff Attorney