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INVESTORS LOST MILLIONS ANNUALLY IN QUESTIONALBE PENNY STOCKS

Attorney General Robert Abrams and the Council of Better Business Bureaus today (Tuesday) released their September Investor Alert which outlines how easy it is for thousands of investors to lose millions of dollars each on "penny stocks." Shares in these low-priced stocks are often sold to promote unproven or non-existent products.

The Attorney General noted that although buying penny stocks may be alluring, the odds are not always in favor of the investor. Some penny stocks promote untested products such as an electric asparagus cutter and are backed by inexperienced management who have incurred substantial debts.

The Attorney General noted that the president of one computer firm that had turned to the penny stock market for financing was a 15-year old high school freshman, while the vice president was his 16-year old brother. According to a recent survey, almost half the penny stocks examined had direct connections to known or suspected criminal figures.

Mr. Abrams stated:

"Penny stocks are a dangerous game in which the average investor often winds up on the losing end. Although the profit for penny stocks may appear great, losses can also be large. Potential investors can protect themselves from fraudulent offers by carefully investigating them and learning just who is running the business and what they are promoting before investing in what could be a hopeless venture."

The Investor Alert program was launched in January 1983 as a joint effort of the Council of Better Business Bureau (CBBB) and the North American Securities Administrators Association (NASAA) as an attempt by business and government to warn U.S. citizens of current questionable investment schemes.

INVESTOR ALERT

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The Investor Alert is a joint project of the North American Securities Administrators Association and the Council of Better Business Bureaus, Inc., to regularly warn the public of current questionable investments.

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PENNY STOCK FRAUDS

So-called "Penny Stocks," which are generally traded at very low prices and promote new untested products such as electronic asparagus cutters or gold mining operations, have been a growing problem for investors. The penny stock game has the same allure to speculative investors as casino gambling. But sometimes the penny stock game is fixed. It is filled with unproven or nonexistent products, novice management and investors who don't seem to know or care that a "gold mining property" is under a lake, as long as they are told that their nickel stock in it will go to three dollars a share.

Penny stock losses have mounted to hundreds of millions of dollars in recent years. State securities regulators have taken scores of actions against dealers for violations of state and provincial securities laws. Forty five percent of 78 new penny stock issues recently surveyed by "Venture" magazine had participants who were convicted felons, securities violators, targets of securities investigations, reputed crime figures or principals who faced serious charges of insider financial misdealing.

A June 1984 Survey by NASAA and CBBB revealed these penny stock problems:

- In Colorado, the 1982 collapse of the Denver penny stock market resulted in thousands of Coloradans losing hundreds of millions of dollars.

- One penny stock company's prospectus revealed it "has engaged in no business whatsoever and has no operating history." It disclosed also that "it would not start business until the offering was completed and that it could "provide the investor with no information whatsoever as to intentions."

- The president of one computer firm was revealed to be a 15-year-old high school freshman. The vice president was 16; his father had been convicted on two counts of perjury in connection with an earlier SEC investigation.

These are just a few of the hundreds of documented instances of questionable practices on file with securities regulators.

HOW PENNY STOCK FRAUDS OPERATE

In the classic penny stock fraud, promoters assign themselves millions of shares of stock at a fraction of a cent per share, or no cost to them at all. Next a prospectus is prepared disclosing that the product has little or no chance of success and

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the stock is offered at five or ten cents a share. The market is then artificially inflated through demand created by the controlling broker who uses pushy, high-pressure tactics to lure investors.

A broker may not allow an investor "in" unless there is a promise to buy more shares later in order to keep the price up. After the share prices reach several dollars the "smart money" gets out and the stock plummets. Novices often don't realize what is happening and cannot sell in time. After the stock plunges, the development of the "moose pasture" dies and the company goes out of business with promoters lining their pockets with the stock proceeds in the company treasury. In this situation, most of the investors will lose a substantial portion, if not all, of their money.

This classic example is not true in all cases of low priced stocks, but it has been seen numerous times. There are, of course, legitimate companies whose securities are traded at low prices, but discriminating between a legitimate offer and the penny stock fraud can sometimes be difficult.

HOW TO PROTECT YOURSELF IN THE PENNY STOCK GAME

The following suggestions may be of help to anyone who decides to play the high-risk penny stock game:

* Beware of high pressure, unsolicited telephone calls.

The fraudulent penny stock broker has a "boiler room," a bank of telephones manned by high pressure salespersons who tout stocks with outrageous promises. Beware of claims that the stock will double soon, and demands that you make an on-the-spot decision and pay immediately. Suggestions that the broker has inside information or that manipulative techniques are being used to raise the stock's price should be viewed very suspiciously. They are danger signs of the penny stock game in which many buyers are the losers.

* Check out the broker-dealer

Phone your state securities regulator to learn if the salesperson is registered and whether any legal actions have been filed against him/her.

THE PROSPECTUS

No matter what the salesperson tells you, get a prospectus and read it. The prospectus is the document containing full disclosure of all the facts about the offering. It must be filed with the state or provincial securities administrator. (In a private deal the document is sometimes called an offering circular or offering memorandum and contains much the same information as in a prospectus.) Anything a salesperson says that contradicts disclosures in the prospectus should be a red flag warning one off the offer. Following are some sections of the prospectus that disclose the risks involved in a penny stock offering:

Management -- This section tells the experience and background of management. Check to make sure, for example, that someone whose sole experience is as a railroad engineer is not at the helm of a biomedical research company.

Company Financial Health -- If they are not already deeply in debt, many penny stock companies have little or no capital to work with. They will be using investors' money simply to keep the doors open. Read the financial statement and accountant's

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report in the prospectus and, if you don't understand them, find someone who does and can explain it all to you.

Dilution -- Promoters often obtain huge numbers of shares free. When the public's money is invested it is immediately watered down by the absence of cash investment by the promoters. The prospectus will have charts or information showing how much investors' dollars have been eroded by the "cheap stock" in the hands of promoters. For example, 75% dilution or more should be a cause for concern.

Use of Proceeds -- This section tells how much money will be used for the mineral exploration or whatever the purpose is, and how much will be used for suspect, unproductive purposes such as loans to officers and directors, back taxes or unmet payroll. This is the key to the legitimacy of the operation.

Product -- Here the prospectus will tell if the electronic asparagus cutter has been tested and proven. Often this section will contain double-talk indicating that the product is "about to be tested", "may be tested," or that money is being raised that will allow testing. Read this part carefully to learn the stage of development --if any -- of the "new invention."

Transactions with Management/Conflicts of Interest -- Watch out for interest-free loans to principals, transactions where the officers, directors and promoters sell property to the company at inflated prices. This could indicate that the company is giving its money to the promoters in less than arms-length transactions and that there won't be much left to develop the property or product.

Litigation and Investigations -- The prospectus will disclose lawsuits filed against the corporation and promoters and, often, government investigations. Investors can get information on civil and criminal securities fraud actions, including the names of defendants and names of defendants and companies, by calling the securities administrator in their jurisdiction.

Finally, find out if the stock is registered with the state or provincial securities agency or the federal Securities and Exchange Commission. Even if it is, investors should not rely on government registration of the offering as an indication of government approval of the soundness of the company or the advisability of the investment. All that is required to register a security in many jurisdictions is full diclosure of relevant facts. It is up to the individual to judge from the prospectus disclosures and other reliable sources whether or not to invest in the stock.

The securities administrator in your state is responsible for the protection of investors and ensuring that complete information is available. If you have doubts whether a particular offering or its sales representatives is duly registered, or if they fail to provide adequate information, contact the securities administrator listed in this Alert.

The Council of Better Business Bureaus and Better Business Bureaus in the United States and Canada answer inquiries on companies located in the areas they serve. Before putting money in any investment plan, it is a good idea to contact your Better Business Bureau for a reliability report on the company you intend to deal with. For more information, contact the BBB office listed in this Alert.

The Investor Alert is a quarterly program jointly sponsored by the Council of Better Business Bureaus and the North American Securities Administrators Association to expose investment frauds to the public and provide useful information on how to avoid the often sophisticated and unlawful schemes that prey on investors.