Securities and Exchange Commission Historical Society
Interview with Robert Davenport
Conducted on June 19, 2007, by Kenneth Durr

KD: This is an interview with Robert Davenport, June 19th, 2007, in Denver, Colorado, by Kenneth Durr. I noticed that you are a Kentucky native, you certainly sound like one.

RD: Right.

KD: I wonder how you ended up out here for law school?

RD: I was born in Earlington, Kentucky; attended the University of Kentucky, and was drafted in 1952 during the Korean conflict. I spent three years in the Army. My last assignment was at Camp Hanford, Washington, where I met my wife, Patty, who was a schoolteacher. When I was separated from the service in April of '55, we moved to Denver, and I attended the University of Denver to finish my law degree. The reason we came to Denver was that my wife was from Vancouver, I was from Kentucky—Denver was midway. The University of Denver accepted all my credits from the University of Kentucky. And we moved to Denver in 1955.

KD: Did you have any idea that you wanted to be involved in securities law, or corporate law?

RD: Absolutely not.

KD: What was your intention when you were in law school?

RD: Well just to get my law degree, and to get a job. Back in the fifties, and particularly since I was married and needed a job. When I graduated in '57, I started work with Travelers Insurance Company, adjusting claims. I also handled their workman's compensation hearings. I later met a fellow by the name of Woody Pierce—Wooton Pierce—who was in charge of the Salt Lake branch office of the SEC, which was a branch under the Denver regional office. Woody explained to me about the Commission, what it did, how exciting it was, and everything. So I thought, well I'll give it a try. I filed my application, and I received a letter from a fellow by name of A.K. Scheidenhelm, who was the executive director of the SEC in Washington, saying they had no positions in Denver, but that they would keep my application on file. About a year later I received a letter from A.K. Scheidenhelm advising me that they had an opening for an attorney in Denver, annual salary of four thousand two hundred and fifty dollars and was I interested? I showed it to my wife, who commented, "We're going backwards." I was making more money. I decided to give it a try for a couple years, and see what it was like. I went to work in May of 1958 and retired April 1, 1996. They were great years. Great years.

KD: You took to it pretty well then.

RD: Well, I'll tell you: it was very, very interesting. And to me, it was kind of on the cutting edge of things that were exciting and needed to be done in the marketplace. I was hired by a fellow by the name of Milton Blake. Milton was the Regional Administrator in Denver. And at the time he hired me, the Denver regional office and the Salt Lake branch office had a total of twenty-five people—that included secretaries, examiners, lawyers, and everyone. When Milt left, a fellow by the name of Donald Stocking became Regional Administrator. Donald Stocking was really, in my opinion, one of the legends of the Regional Administrators. Don came to Denver from Seattle, where he was Assistant Regional Administrator. He hired and trained five Regional Administrators over his tenure with the Commission. Jack Bookey in Seattle; Don Malawsky in New York; Gerry Boltz in Fort Worth and in Los Angeles; Bob Watson in Fort Worth; and myself in Denver. He could really work with young people, and he did a great job in training regional administrators. He's quite a legend.

When Don left and retired, Ray Garrett, who was the Chairman, appointed me Regional Administrator. And then let's see, it was in 1993, Arthur Levitt, who was then Chairman, promoted me to Regional Director of the Central Regional Office. That's when he expanded the Denver regional office to the Central Regional Office. All of a sudden we had eleven states, from Canada to the Gulf of Mexico, that we were responsible for. It almost doubled the size of the Denver region. They also folded Fort Worth under Denver. We still had Salt Lake under Denver. And so all of a sudden we had about a hundred and fifty people to cover eleven states. It was a pretty exciting time.

KD: That must have been a tough transition, folding all those offices together.

RD: Well I can't speak for any of the other offices, but it didn't present any major problem in Denver. I was very fortunate over the years because I had a great staff—a wonderful staff in Denver, a good staff in Salt Lake City, and there was a good staff in Fort Worth. Over the years, and particularly when I first came with the Commission in '58, there was a tremendous amount of camaraderie between all of the regions—headquarters and the regions, because it was a small agency. You go back to Washington, walk in the Chairman's office, and say, "Hello." He'd say, "Sit down and tell me about what's happening in Denver." It was a very collegial atmosphere, a lot of camaraderie, and everyone tried to do what they were supposed to be doing. If I ran into trouble in Denver—which I did during the penny stock boom—Jim Clarkson in headquarters, who was the Director of Regional Office Operations, put together a team of examiners from all the other regional offices, and sent them to Denver. If you needed help, you picked up the phone and called your brother regional administrators and tell them I need some help. And they'd send assistance. It was a very healthy working atmosphere.

KD: So there was no competition between the regions.

RD: Oh yes, there's competition. There's always been competition on—you know your cases, and the significance of your cases. You know there's always been that competition, but it's been a healthy competition. Not vindictive. If somebody needed help, you sent help. For example, Gerry Boltz went to Fort Worth, and all of a sudden he was snowed under with litigation. So we sent trial attorneys from Denver and Seattle, down to help him. And that's the way the Commission worked then.

KD: Well let's go back. We got you to the Director of the Central Region, which is where you retired from. Let's go back and talk a little bit about this business in Denver. I noticed that one of the earlier stock booms, the uranium boom, even led to some hearings here in '55. And you would have been in law school at the time. And I'm wondering if you remember those hearings coming to town and if you can tell me a little bit about some of the peculiarities of these over-the-counter type stocks.

RD: Well, I think the history of Denver can be basically divided into about six parts. And when I think of Denver and its history, I'm really thinking of what a lot of people call the Wild West. Salt Lake City and Denver, historically, has been the fountainhead, the genesis of the penny stock market, the mining stocks, the energy-related stocks, and all of that. In fact, in the early 1900s—that's when mining was king. That's when your silver and your gold prospectors were out here; fortunes were made, fortunes were lost. Horace Tabor, the silver king, built the Tabor Theater, was senator and became wealthy. Baby Doe Tabor was a socialite here—the Windsor Hotel and the Tabor Theater were only two of the gathering places for the wealthy. And then when the price of silver dropped, Horace Tabor was penniless. Baby Doe Tabor, who had lived at the very top of the social structure, ended up dying at the Matchless Mine in Leadville, Colorado. And so fortunes were made and lost. But that's when—and a lot of people have never heard of it, I'm sure—that's when assessable stock was popular.

KD: Assessable stock?

RD: Assessable stock. The mining companies in the early days would go to the public, raise money, and all the stock they sold would be assessable. So if, later on, they found something—they'd want to build a mine—then they would levy an assessment on all of the outstanding stock of X dollars, in order to fund the operation of the mine. Then in the 1950s, the uranium boom really took off. That was when Regulation A filings were very, very popular. At that time, Regulation A—the form you filed at the Commission consisted of one sheet. It was called Form SB3-1—S-B-3-dash-1. Hundreds and hundreds were filed in Denver by companies looking for uranium. It was a one-page questionnaire, which we used to jokingly refer to as a license to defraud. It was just a bunch of questions and answers. Securities lawyers were very busy out here, filing Reg As with the Denver office.

As you are aware, I'm of counsel with Jones & Keller, in Denver; and one of the founding members of the firm was a trial attorney with the SEC in the '50s. He resigned and went into private practice. Reid Godbolt, who is the president of the firm today, worked with him. He can remember Alec Keller, who was the attorney that left the Commission, saying that he had so many filings to make that he would many times sleep on the couch in his office, and work around the clock. The promoters were very anxious to get their offerings through, and on the street. They would slip notes under his door, with money, saying, "Do mine first. Do mine first." It was an unbelievable time in the life of this part of the country. It was a broker's heyday.

KD: If these Reg A filings—ostensibly they're about disclosure, right? And if that's the case, how did they become this license to defraud?

RD: Well, this was the early one. This was when Reg A was just conceived and implemented. They just had this one-page question and answer. The Commission quickly came to the conclusion that they needed to hone that a little bit more. And that's when it grew into the Regulation A, as we know it today.

KD: No more one-pagers.

RD: No, Reg A is disclosure and the disclosure is basically the same in Reg A as it is in a prospectus. You know, the anti-fraud provisions—the disclosure's still there, but back in the uranium days in the '50s it was different. I've been told that promoters in Salt Lake City and in Denver were actually selling uranium stock on the street corners. Cadillacs were everywhere. The promoters were riding high. It was just a frenzy—a feeding frenzy—people trying to buy uranium stock, and the promoters selling uranium stock. Most of the companies, after they raised their money, did go out and do exploration, and punch some holes; and some of them found uranium, most of them didn't. There were literally thousands of these companies that were incorporated in Salt Lake City under Utah law. Many of these companies ultimately were declared, in large part, what we call D&I, defunctive and inoperative, by the Utah Secretary of State. These companies were the ones that were picked up in later years by promoters in the shell company business; because these companies, in essence, had no business or assets, but they had stockholders all over the United States. It was interesting that all the activity basically took place in Salt Lake and Denver during those uranium days. There was some in Arizona, and other places, but this was where it all took place.

Then the second phase of the Denver history is basically in the late '60s and early '70s. That's when we had the exotic securities. That's when the promoters really came up with some different concepts: the silver investments, that was a big thing out here. A gentleman in Salt Lake City decided that this would be an excellent thing to promote, so he promoted silver investments with what he called delayed delivery. In other words, you would buy X ounces of silver, and he would be kind enough to store it in his vaults for you; you could sell it at a later date. The only problem was that he really didn't have any silver mines, and he really didn't have any silver; and it was just a massive rip-off of the public.

KD: What would happen to him if the price went down though?

RD: Well it didn't bother him. The money that he raised, he just used. He never delivered silver; he never purchased silver. It was just a way he raised money from the public. He didn't care whether the price of silver went up or down.

KD: I guess not, yes.

RD: It didn't matter. Then we had the animal cases out here. The beaver case was the big one. The beaver case was a case called SEC versus Weaver's Beaver Association. One defendant appealed to the U.S. Supreme Court, which denied cert. A fellow in the Salt Lake area started a company called Weaver's Beaver Association. They sold pairs of beaver, all over the United States and in foreign countries. These were purportedly domesticated beaver. You would buy a pair of beaver for several thousand dollars, and these beaver would have little beavers, called kits. Then these little kits would grow up, and they'd have more kits. And you would end up with this large herd of beaver. The beaver were to be sold to other purchasers. They had a marketing arm, where they would sell your pairs of beaver. There was going to be a tremendous demand for beaver pelts in coats, beaver hats, and everything—it's coming back. So they sold millions and millions of dollars of these beaver. The salesmen represented that you could take possession of your beaver, and you can raise them in your own backyard, but if you don't have the capabilities, we have beaver ranches all through the West—Montana, Wyoming, et cetera. At these beaver ranches we have little pens for each pair of beaver, they have nesting boxes, they have little swimming pools, and they're fed a special diet. We'll take care of your beaver for you for a hundred and fifty or a hundred seventy-five dollars per beaver per year, until you can sell it. Nobody could take care of beaver; you can't put it in your bathtub. The purchasers would have to leave the beaver on the ranches. What happened was that all these beaver and their kits that was being sold to people could not be re-sold, because the Association was too busy selling their own beaver to take time to sell your beaver. So these people ended up with a large number of beaver, and they're paying all these ranching fees. It was just a disaster. They really weren't selling domesticated beaver; instead they were flying the beaver down from Canada and purchasing them from trappers in Canada at approximately twenty dollars a beaver. They'd fly them into Salt Lake, put tattoos in their back foot, in the web, and start selling them. They'd sell them for three thousand a pair and up.

We tried the case in Salt Lake City, and it caused quite a stir because a lot of these beaver owners, and a lot of the other people in Salt Lake City, started contacting their congressmen and people in Washington, saying that the SEC was getting into the animal business. And so that was when—I'm trying to think—Hamer Budge was Chairman.

KD: Late '60s.

RD: Yes, the late '60s. And what happened was: all the congressmen started leaning on the SEC. "What are you doing? You know, suing people that raise animals." The SEC position was that it was an investment contract. You put your money in, you bought the beaver, they kept the beaver; they raised the beaver, they were to sell the beaver, and all the profits were supposed to come from a third person. The courts had no trouble finding an investment contract, and the Supreme Court denied cert. The SEC got a tremendous amount of pressure from the public. Hamer Budge came out to Denver in the middle of the case. I was in the office one day and he walked in and asked me if we have any more animal cases out here? I said, "No. We have no more animal cases." I learned a lesson then. I'll go back to the more traditional securities frauds.

KD: How did this come to your attention?

RD: That's a good question. I think someone on our staff in Salt Lake picked it up. It's pretty hard to keep that quiet. They were selling beaver all over the place. But you know, at the same time, that's when all these other animal cases were prevalent in other parts of the country too—foxes, chinchillas, and even worm farms; you know they sold worm farms.

KD: I suppose some of your counterparts might have gotten involved in these—

RD: I shied away from worm farms and things like that after the beaver case. This was also when they resurrected all the shell companies in the late '60s and early '70s.

KD: Now why did they resurrect the shell companies? What did they want to do with these things?

RD: Well, the way it would work—and a good example is a case that the Commission brought called San Salvador Savings & Loan, which was promoted by a disbarred lawyer from Salt

Lake City who was well-known to the SEC. He was a very smart young man. He bought the expired charter of a defunct savings and loan in Nassau for six hundred dollars. He later printed millions of dollars of worthless bonds, and literally had a duffle bag full of those bonds, traveling around the country, trading them for stock in shell companies. Then the shell company would put the bonds on their balance sheet, and then they would use it to obtain money from banks and others who loaned them money. Then they enlisted the aid of some brokers in New York, and they started pinking the stock. When they got the stock price up to where they wanted, the lawyer from Salt Lake City, and all the rest of them, would dump all their stock on the public, and then go to the next company. How did we learn about this promotion? The way we learned about this one was that I was sitting in the office one day in Denver, and I received a call from the police department in Denver, who told me that they had ten million dollars worth of bonds that they had picked up from the bell captain at the Hilton Hotel. They asked, "What do we do with them?" I went over to the police department, and there they were: ten million dollars, face amount, of San Salvador Savings & Loan bonds. I mean they were so fresh that the ink looked wet. Purportedly they'd been issued years and years ago according to the date on the bonds. When I went through the hotel guest register for the three days spanning when they were dropped with the bell captain, I found the name of the lawyer, who stayed in the hotel. The bonds were bound together with a rubber band and left for pick-up by another person that we knew, who lived in Denver. We issued subpoenas, and that was the beginning of that case. This lawyer printed two kinds of bonds: one on IBM cards, and some on the regular eight by eleven-size paper. He would print the bonds in Dallas, and also on a little printing press in the basement of his house in Salt Lake City. Another part of the scheme involved incorporating ninety-three companies in Carson City, Nevada—ninety-three different companies in one day. All of those companies had exactly the same name as companies that were on the books and records of the Utah Secretary of State—shell companies – and had been declared D and I. These shell companies had stockholders all over the United States. So he had a ready-made stockholder list. They would purportedly infuse assets into these companies, then they would put out false and misleading press releases. The broker/dealers in New York and in Salt Lake City would start pinking the stock, it would move up and up and up; and then they would dump it.

KD: Pinking the stock?

RD: Yes, pink. We called it pinking. There's—you know you had the New York Stock Exchange, and you had all your other markets; but then, for stock that was—the cheap stock, the penny stocks, they had what they called the pink sheets. Pink sheets. And so they were "pinking" the stock and giving buy and sell quotes. Those ninety-three companies were used to extract an awful lot of money out of a lot of people.

KD: So they go back to these old shareholders, who've got this stuff in a cupboard somewhere, and they convince them that their old company's back and doing great, and you can re-invest.

RD: One company said that they were going to merge with the company that owned the Queen Mary. They made all these misrepresentations, and the people got interested, and then they would point to that the stock was being quoted in the pink sheets. The people didn't know what the pink sheets were, but there was a quote by a broker in New York. So when the stock started moving up, they would buy some more. When the price got to where they wanted it, they would dump their stock and go to the next one.

KD: Were they actually restarting these old companies? You said they were incorporating new companies.

RD: They incorporated new companies with the names of old shell companies, because then they could control the fraud completely. This gentleman from Salt Lake City called this the coup of his lifetime, to some brokers in New York.

KD: Do you remember this guy's name?

RD: I remember his name well. He died when he was in his late thirties, in California. He was a very smart lawyer, but he seemed reluctant to comply with the law. There were literally thousands of shell companies on the books and records of the Utah Secretary of State. Promoters would go in and pay all the back franchise taxes, and file a report, and resurrect the shell companies. We could not handle all the cases that we had. They could resurrect the shells much quicker than we could investigate and sue them. Norm Johnson was a lawyer in Salt Lake City. Norm Johnson later was appointed an SEC commissioner. Norm was really a great friend of the Commission in the days when he practiced. He knew the governor and we had several meetings with the governor. Legislation was passed which provided that all of those shell companies that had been declared D and I were wiped off the books in a period of about three to five years. That pretty well did away with that source of shell companies that the promoters used.

KD: Was this in the '70s?

RD: Yes, this was in the early '70s. Your silver investments, your beaver case, the fox, chinchillas, resurrected shell companies, in the late '60s and early '70s. And then the next era was probably what you could call the insurance frauds. But really that was just a blip on the screen out here. There were some insurance frauds. I think that's where a lot of people received training on how to cook the books. But that didn't hit us too much. The really big thing was in 1975 to the early '80s when we had the penny stock boom. Denver and Salt Lake City was where it all began. The national media labeled 17th Street in Denver as the Wall Street of the West. *Newsweek* called Denver a hot underwriting town. *Newsweek* also called Salt Lake City the sewer of the securities industry, which didn't make the people there very happy. In a matter of three years, there were approximately five hundred and twenty issues filed with the Commission to be offered in the Denver market. The aggregate offering price for those shares was one billion, four hundred and eighty-four million, five hundred and forty-seven thousand, five hundred dollars. All of the figures I mention today were compiled by staff members who were monitoring the Denver-Salt Lake market.

KD: More than a penny.

RD: More than a penny. There were a hundred and one Regulation A filings, a hundred and twenty-seven S-18's, and two hundred ninety-two S-1's, 2's and 3's. Four hundred and twenty-two were offered for less than a dollar. Two hundred and sixty were oil and gas; twenty-one were other energy—gasahol, et cetera; seventeen, solar energy; and forty-eight, mining. That was the bulk of the ones that went to the street. When they say penny stock market, it's really a misnomer. I'd go back to Washington and tell people this, and they would look at me, as if, 'You're not for real.' Then we would tell them that during the period January 1, 1981 to December 31, 1981—that one-year period—there were three billion, ninety-one million, eight hundred and seven thousand shares that traded hands, for an aggregate trading volume of eight billion, three hundred and sixty-three million, three hundred and sixty-eight thousand dollars—or an average of seven dollars and seventy-one cents a share. That was the penny stock boom. It was something that's hard to describe. It was a feeding frenzy. I mean all of these brokers out here were springing up—these penny stock brokers ready to do business.

And then in early 1982, the market really softened. We were very concerned out here, very, very concerned at what was going to happen to the broker/dealers and the people that owned all these stocks and the financial capabilities of the brokerage community—the penny stock firms. We had worked closely with NASD. The regional director was Frank Birgfeld. Frank and I had worked together very closely over the years—the NASD examiners and the SEC examiners, and the attorneys of the SEC. I called Jim Clarkson in Washington, and Frank called John Pinto at the NASD office in Washington. Jim and John sent about 35 securities compliance examiners to Denver. Jim pulled from the different regional offices of the Commission; John pulled from the district offices of the NASD throughout the United States. These 35 examiners flew into Denver one Sunday night. Everyone met at the office of the SEC the next morning, bright and early. The staff in Denver had put together packets for twenty-eight different broker/dealers, containing their last financials, their last exam report, names of the principles, directions to get to the brokerage house, etc. All the examiners, including 15 from the Denver office, left the office, got into rental cars, and at nine o'clock in the morning walked into twenty-eight penny stock brokers.

We had teams set up in the Denver office. We had senior examiners to answer questions from the field examiners. We had lawyers who had already prepared basic complaints which could be filed. If they had to get into court immediately, we had trial people on hand. It was a smooth operation. At nine o'clock, John Pinto and I had a press conference, and issued a press release saying that this is what we're doing, that there's no reason to be concerned and that we're trying not to cause a panic. It worked.

KD: But it's pretty dramatic to walk into twenty-eight offices all at the same time like that.

RD: It got everybody's attention—the news media, and everyone else. As a result of the examinations, there were eleven firms that closed on their own volition; there were six voluntary liquidations; there were six civil actions; and three SIPC trustees appointed. That was basically the end of the penny stock boom. After that, we still had the penny stock market; but the Commission, over the next years, brought enforcement actions against basically all the major penny stock firms: Blinder Robinson, American Western, First Colorado, OTC Net, OTC Net SA, Stuart-James—all of them are out of business. But that was the penny stock boom. And at the same time, we had a large case out here called FISTA, which involved a transfer agent.

KD: FISTA?

RD: FISTA. First Independent Stock Transfer Agent. FISTA was the transfer agent for approximately fifty-eight companies, a lot of penny stock companies, but also some pretty substantial companies. They had a mixture. A securities compliance examiner in the office, by the name of Everett Smith, received a call from a friend of his at the police department, who said that they had just completed a raid near Cheeseman Park in a high-rise, and had found garbage bags full of stock certificates. Everett called me at home around midnight, and then went to the condo. Sure enough, there they were: garbage bags full of stock certificates. The next morning, the Commission gave us authority to file a civil action. The office filed a civil action and the court appointed a receiver. After the raid was reported in the media, the brokerage community was upset, as well as stockholders, because they thought they wouldn't be able to sell and transfer their stock. It was a mess and they were going to lose everything—so everybody was after the SEC for doing this. The receiver did an outstanding job. We put half of our staff on that case with the receiver. In just a matter of weeks, he had it resolved, and then everyone was able to transfer stock.

But it got so bad that—remember Tim Wirth? Congressman? Tim Wirth had received so many letters, he said he wanted to talk to us and see how we handled FISTA. He came to Denver on a Sunday, and I spent about two hours with him going over everything that had happened. When he walked out, he was very kind and told the media that the SEC did a great job. That was the end of that. But for a while it was touch and go. I mean with all these companies, all these stockholders.

There's so many interesting things that happened over the years, and interesting cases. I think one of the funniest things that ever happened was in Pierre, South Dakota in the '70s. Another lawyer and I were up there working on some cases. Not a lot goes on in Pierre. We were sitting in the restaurant part of a motel having breakfast. Behind us we could hear a conversation. There were three people. One of them said, "If we can set this company up, and issue ourselves a lot of stock, and then put some assets in it, and then put out some press releases, and run the stock up to where we can really make some money, then we'll dump it, and go to another one. We can make all sorts of money." This second voice came drifting over the booth: "Well, what about the SEC?" The third voice came out loud and clear: "Hell, they can't be everywhere."

KD: Wow. So how'd you follow that one up? Did you turn around and say, here we are, guys?

RD: No, we didn't get up and flash our badges and say, "We're here." No. Because we were up there on something that was a lot more important than that scheme.

I think probably the last era that was really significant in the Denver region history is 1985 to 1990, which were the blank checks. Some people confuse blank checks with blind pools. It was very hard to explain this to people so they would pick it up, at the time it was going on. The blind pool has been used for years. Oil companies will use a blind pool, and they'll say that we're in the oil business, and we're going to raise money. We don't know where we're going to explore, or what leases we're going to acquire, but we plan to concentrate on the Rocky Mountain region, and acquire leases. You know that's okay. Blank checks, in the '80s and '90s out here—again, this was spawned in Denver and Salt Lake— said give us your money; we have no plans; we don't know what we're going to do; but just give us your money, and trust us to make a wise investment. We had a hard time with that one. We just didn't like it at all. In 1985 we had a hundred and thirty-eight S-18s filed in Denver. You know we used to have just Reg A in the regions. We had hearings in Denver and forty-some-odd people testified from the brokerage, legal and accounting communities—John Evans chaired the testimony. The Commission then adapted S-18, which put the registration process in the regional office with a limitation as to the amount. So at last we had the registration process in the Denver office. We didn't have just the conditional exemption from registration provided by Reg A, we had a full registration. Anyway, in 1985, a hundred and thirty-eight S-18s were filed in Denver. Sixty-three were blank checks. I tried hard to get the Commission interested. They just didn't seem to be interested. Then in 1986, we had a hundred and fifty-seven S-18s filed, and a hundred and thirty-three were blank checks. On Valentine's Day, February 14, 1986, a UPS employee walked into the Denver office with a cart, and on it were thirty-three boxes. Each of the thirty-three boxes contained a blank check S-18 filing. We called it the Valentine Day massacre.

KD: So these had to come to you. These would have normally come to you, it's just that you got so many at once.

RD: The filings were logged in and ready to be processed; we started looking at them carefully. We found that sixteen of those filings had the same attorney, the same accountant, the same transfer agent—all of them had been incorporated in the last three months, all were headquartered in Salt Lake City or Murray, Utah. None had any operational history. All had approximately five thousand dollars on their balance sheet. The officers and directors had little or no experience in any business relating to identifying and acquiring companies, mergers, or anything. Each said they were seeking unknown business opportunities. They were all self-underwritten by the officers and directors. Several had common officers and directors. Every one of the S-18s was for fifty thousand dollars, two thousand five hundred units. The officers and directors were parking lot attendants, waiters, students, Roto-Rooter employees, secretaries. It disclosed that the president of the sixteen filings would devote ten to fifteen hours a month to the business, and each of the other officers and directors would devote five to seven hours a month to the business. Some of these officers and directors actually met for the first time when we subpoenaed them all together. They met and introduced themselves in the office of the SEC, in Salt Lake City. So, with that, we recommended enforcement action against those sixteen.

KD: Was it the attorney that was behind all of this?

RD: No, it was the same attorney, but it was two or three promoters that were well-known to us. They were sitting in the background, and they didn't think that we would find out who they were. We recommended an enforcement action to the Commission. The Commission didn't have any trouble authorizing an enforcement action, because they could see that promoters were just ripping off the public. So that was the blank check era. That pretty well died down. But one thing that happened out in Salt Lake and Denver is that the Salt Lake office and the Denver office were, to my knowledge, the two offices who first participated in an undercover so-called sting operation. That happened during the penny stock boom. The FBI, the Justice Department, the U.S. Attorney, the postal authorities, and the Internal Revenue Service—we all met in Denver. They put together an undercover task force, led by the FBI. The SEC—the only thing we did in Denver and Salt Lake was provide technical assistance to the undercover people. The Commission was not very comfortable with this whole thing, but we persuaded them that it's the only way that you could really make an impression on these penny stock brokers and promoters. And so the Commission authorized it.

The FBI sent in a very young FBI agent from another office. The way the *Wall Street Journal* wrote it up was that he blew into Denver in a red convertible, wearing a big Rolex watch, and started moving in the areas where the promoters moved: the bars and other places. Pretty soon he was right in the middle of them. They had meetings that were taped. It was first done in Salt Lake, then in Denver. I can understand how much pressure those people were under, when they're doing something like that. This young FBI agent was stressed out trying to play all these different roles. But the two operations resulted in ninety-eight people being indicted, or charged in informations—either indictments or informations. So it had an impact.

KD: So these promoters—these are people with offices around 17th Street?

RD: No. Well there were some of them in Salt Lake City, and a lot of them in Denver. They were in Englewood, and they were all over the Denver metro area—all over the Salt Lake area: Murray, Logan. It was not your major brokerage houses; it was the penny stock crowd. We used to fly to Salt Lake City, and then take different taxis to go to the hotel, and knock on the door. It was like something out of a magazine. But anyway, it worked well. We had success, and the staff in Denver and the staff in Salt Lake did a tremendous job. That's probably just about everything I had on the different eras in Denver here.

KD: Let's go back to when you came into the Denver regional office. Was Donald Stocking in there at that point?

RD: No. Milton Blake.

KD: Milton Blake.

RD: Milton Blake hired me.

KD: Okay. Tell me a little bit about the kind of work you did as a young trial attorney at the regional office.

RD: It's so foreign to what they're doing today. We used to swing through all the different states. We'd read the newspapers. We had newspapers from Albuquerque, from

Cheyenne; we had newspapers from every major city in our region. That's when we had six states, that's before we got the eleven. We had close contact with the state securities commissioners. We would always go to the Midwest Securities Administrators meetings. The Midwest was before NASAA was formed. The North American Securities Administrators was an outgrowth of the Midwest group. We used to keep in close contact with U.S. Attorneys in our region, and state securities commissioners. The state securities commissioners would feed us a lot of information, because their resources were just so limited it was unbelievable. And then a lot of times, they would have cases that were very significant, but there was so much political pressure that they would rather see us handle it, which was fine with us. In fact, that happened in Nebraska. We received a call from the securities commissioner saying this fellow had set up a company and was selling stock intra-state—not outside the state. They had information to the effect that he was using the money to buy tickets to the Nebraska football games, cashing checks at the Piggly-Wiggly store; living a high life. He ran for lieutenant governor and lost. He tried to pass the bar exam and failed. He'd been awarded the Knight of Saint Gregory by the Pope in Rome and was a pillar of the community. After we investigated it, the Commission filed a civil action. A criminal case was brought by the U.S. attorney, and the staff assisted in the prosecution.

We received information from a lot of different places. When I mentioned that we were in South Dakota, we were up there because we'd received information about some purported frauds that were going on up there. We'd go up there and work the cases. In the Nebraska case—I flew over to Lincoln and met with an Assistant Attorney General. We spent about ten days in a car, driving all over the state, interviewing people who had purchased stocks. He had sold to three fathers at Boys Town, a housekeeper in St. Paul, Nebraska—to everybody. He really concentrated on Roman Catholics. In the criminal case, we had two of the fathers from Boys Town testify. When they testified, it was all over because who's going to say that two priests from Boys Town are trying to take advantage of somebody. We would go out and interview people in the field, go back to the motel at night, type up affidavits; go back the next morning, have the affidavits signed. The assistant Attorney General that I worked with in Nebraska was a Notary Public, and so he'd notarize the affadavits. We'd go to the next town, and get fifteen or twenty affidavits; we subpoenaed the books and records, and go through them, and put together a case, and recommend the enforcement action to the Commission. One of the things that really started the penny stock—the fifty-man task force—was that we kept getting these complaints from the public, saying that they could not get delivery of their stock; they weren't able to get paid when they sold their stock. That's an indication that something's wrong with that brokerage firm.

KD: Would you work with local prosecutors then? Or would cases generally come back to Denver? How did that work?

RD: The cases always came back to Denver; it was an SEC case. It came back to Denver. And as you well know, the Commission, when they brought a case would bring either a civil action or an administrative proceeding. When you get it in the criminal arena, that's the U.S. Attorney. But we worked closely with U.S. Attorneys, and would second chair them. You know they would prosecute the case, but we'd be there; and supported them. Back in the '60s, '70s, '80s, there wasn't much expertise in U.S. Attorney's office or the Department of Justice on securities fraud. They didn't want the case, because generally the cases were a lot more complex and longer than a bank robbery. A couple of witnesses, and a video, and you got a case. You really had to talk hard to get a U.S. Attorney to even touch a securities case. Back in those days, we had a long laborious process. You couldn't refer a case to the U.S. Attorney unless you wrote what they called a Criminal Reference Report to the Commission. Back in the '60s and the '70s, after we'd complete a civil action, we'd sit down and write and write and write a Criminal Reference Report, which showed everything that we wanted to charge them with, and all the evidence that we had to support the charges. It would go up to Washington and be reviewed. That was when Art Matthews was with the Criminal Division. Now, U.S. Attorneys—and even when I was in the Regional Director's position, a U.S. Attorney may call up and say I noticed this civil action and I'm in interested in this. There's a lot of cooperation now, and you don't have that laborious Criminal Reference Report route, which sometimes takes a year or more.

KD: When did you get rid of that?

RD: I don't know, but it was before I left the Commission. I honestly can't answer that question. But it was quite a while before I retired in '96.

KD: How large was the Denver office when you came in?

RD: Twenty-five. That included secretaries, examiners, accountants, and lawyers. When I left it was about a hundred and fifty. Now it's more. We had a hundred and fifty, roughly, in Denver, Fort Worth and Salt Lake.

KD: Donald Stocking came in from Seattle, I guess? Is that right?

RD: Yes.

KD: Did he shake things up? Did he change the focus of the regional office at all?

RD: Don was truly a people person, a great leader. His philosophy was that enforcement was very important, and that's what he emphasized. His theory was that the Commission doesn't know what you do in a regional office, unless you're bringing enforcement cases. They don't know the number of exams you do or how well the examiners are working. So enforcement is important. I think it's important for two reasons. Number one—just having a presence everywhere and particularly in North and South Dakota and Wyoming, back in the '60s and '70s—and that mindset that they had in Pierre, that the SEC can't be everywhere all the time—we didn't like that. So we would send the examiners and attorneys to the different states, and they would walk in and knock on the doors of these brokerage firms to let them know that we're still around. They weren't isolated up there, at the end of the world, doing their own thing. You need a presence.

You also have to balance the use of your enforcement powers with good judgment. I used to always tell the young people in the office—and I firmly believe it—you don't realize the power that you have, when you pick up the phone and call a CEO of a company, or call the head of a brokerage firm, and say this is so-and-so with the Securities and Exchange Commission. You don't realize the impact that has on that person. I would say, "So use it judiciously." You don't want to abuse your power. You want to make sure your enforcement cases are well-founded and appropriate. I always pushed enforcement, but we tried to balance it with good judgment. And Don did that. He brought that philosophy to the office and that philosophy was imparted to Don Malawsky; Gerry Boltz, Bob Watson and me.

KD: So these folks you just named: did they start here in Denver? Or stop in Denver, and then go to the other regions?

RD: Jack Bookey: Don, as Assistant Regional Administrator, hired Jack in Seattle and worked with him for several years before Jack became Regional Administrator. When Don came to Denver, I was already here. I'd been hired by Milt Blake. Don Malawsky came from New York and worked as a staff attorney in Denver. Gerry Boltz was a legal assistant to a Commissioner and came out to Denver as a staff attorney. Bob Watson was a clerk for a Federal judge in Denver, and then came to the Denver office. Don Malawsky became the Regional Administrator of the New York regional office. Gerry Boltz became the Regional Administrator of the Fort Worth regional office. Bob Watson became the Regional Administrator in Fort Worth when Gerry went to Los Angeles, and became the regional director there. That was kind of the evolution then. Back in those days, most of the Regional Administrators came up through the Commission. That was kind of the policy trend and provided a career path. They came up through the ranks of the Commission, had been at the Commission for a long time, and had a lot of experience and institutional knowledge.

KD: Now you're seeing the prosecutors, people like that, coming into the Commission regional offices.

RD: Well yes, it's a different philosophy. All the people that come in are probably good; it's just the way things have changed.

KD: I'm interested in digging a little more into the relationship of the regions, and yours in particular, with the SEC in Washington. The '50s, for example, was a time when the agency was considered to be kind of quiescent—not a lot going on. Some more vitality coming in, in the '60s; and of course in the '70s, the enforcement division almost took over, to some extent. Did you see reflections of that in your region?

RD: The regional office should keep two things in mind. They should emphasize programs that the Commission wants to emphasize. Every Chairman that comes in has a program. John Shad, when he came onboard was concerned about insider trading—going to step on them with steel boots. They all come in with a program, and that's good. They bring a fresh look to the Commission. The other thing is, I think that a region has a responsibility to constantly keep the Commission advised as to what's happening in the region; because what's happening in Denver is significantly different than what's happening in New York, and Atlanta, and L.A. The Commission cannot make intelligent decisions with respect to funding, staffing and programs, unless you keep them advised as to what's going on in the regions. That's something that I always emphasized. During the early times when I was with the Commission—even until I retired in ' 96, to be honest—and I can only speak for Denver; I can't speak for any other regional office—we had a great relationship with headquarters enforcement.

That's not to say we didn't have things we disagreed on, but we worked together. We had some really big cases out here during the silver market era, and we had some people that we brought in that were really high profile. Stanley [Sporkin] sent out someone from Washington that was an expert in that area to help us. They worked under the supervision of the Denver office. They didn't try and take the case. They didn't try and steal the case. That happened sometimes because you have these young tigers in Washington, young tigers in Denver, they want to grab a case; and the minute they see a case they'll open up an MUI, or open a case file so that they can start the investigation. But that's okay. We worked together. As I mentioned earlier, when we had the problem with the penny stock market, I picked up the phone and called Jim Clarkson in Washington. Within a matter of days, he'd put together a team of examiners from all the regional offices—two from each one, so that they wouldn't be hurt too badly—and sent them to Denver. We got the job done. I was really privileged to work over the years with a group of what I called mental giants - people like Manny Cohen and Irv Pollack and Phil Loomis, and Ray Garrett and Al Sommer. You didn't have to explain to them why you're bringing a case. They knew, because they'd seen it; they'd come up through the ranks. They were mental giants. There were a lot of other ones there too.

KD: Was this just simply picking up the phone and talking to these people in Washington over and over, or did you get there, and sit down with them?

RD: Well every time I'd go back to Washington, I'd go into their offices, and sit down and talk with them. Irv Pollack was a great teacher. We would send a staff attorney—a new staff attorney—back for six weeks, to act as Irv Pollack's legal assistant. He would sit there and be trained, basically, by Irv Pollack. When Irv Pollack was a Commissioner he knew everything there was to know about enforcement. He'd been there, done that. And he could train those people well. There was a lot of cooperation between the regions and headquarters, and the Commissioners themselves. It was just a very healthy working relationship—that's why I think that I was very lucky, because I came down the road at a great time with the Commission. There's a lot of people having a great time now, I know, and you've got a good Commission now, but I had a very interesting thirty-eight years with the Commission during the Golden Years.

KD: Well let's return. We started out talking in broad terms about the West and how things are different out here. One thing we never nailed down though—and I'm interested in your perspective on—is why Denver? Why Salt Lake? Does it have to do more with the economy? Does it have to do more with the legal climate—corporation laws, things like that? How much did those things affect what's taken place?

RD: I think it's the independent entrepreneurial spirit in the West. In the late 1800s and early 1900s, you had the gold and silver rushes. This was when people came to the West to seek their fortune. This was where mining law was born. People were rolling the dice, trying to raise money to look for silver and gold, and were being grub staked. Some people that owned a mercantile store would grub stake a miner with food and clothing and a burro, so he could go up to Leadville and look for gold. And it was that entrepreneurial spirit, and it just grew up. There were so many fortunes made out here. I referred to Horace Tabor, the silver king. You can go up on Capitol Hill and look at the rows of mansions that were built by the mining magnates, the do-it-yourself type person who fostered the entrepreneurial spirit in the West. We have people in the West who can always find a way to separate an investor from his money. And irrespective of how quickly you figure them out, they've got another deal coming down the pike. But that old saying, 'What goes around, comes around'—you know many of these things that we've talked about: the hot issue IPO market, the stables of investor—sell it for five cents, make the people commit to buying in the after market, and all of this—it hasn't been too long ago that we read about the same things in the paper. You know, it happens in the East.

I think that there was a Commissioner in March 2006 that told the *Wall Street Journal* that more attention should be given to fighting fraud in the penny stock-pump and dump market. That's no different than it was back in the early days here. Pump and dump. Pump it up, dump it. So what goes around, comes around. They've merely refined it.

KD: I guess given that perspective, odds are good that more people out here are going to come up with more ways to do these things.

RD: Yes. That's what keeps the SEC in business, the ever-changing evolution of what goes on in the marketplace. But the Commission has done a great job, I think, and continues to do a great job to bring discipline into the marketplace. Even with our bumps and warts, we've still have the best and most honest financial markets. I think it has a lot to say for the SEC.

KD: Well is there anything else that we should cover that we haven't touched on?

RD: I really can't think of anything, unless you can.

KD: No, I'm good. Thanks for talking to me. I appreciate it.