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Memorandum

NEW

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DATE: April 10, 2002

TO: Nancy Cole
Docket Control

FROM: Jamie Palfai
Securities Division

RE: Bruce J. Blechman, et al.
Docket No. S-03376A-02-0000
Assigned Staff

CC: Mabel Aldridge

OPEN MEETING ITEM

4/15/02

This is to notify you that the following individuals have been assigned to the above-mentioned case.

- Mark Sendrow
- LeRoy Johnson
- Matthew Neubert

Jamie Palfai (Staff Attorney)

Ron Clark (Staff Investigator)

Wendy Coy (Supervisor)

Note: The Assistant Attorney General assigned to this matter is: Moira McCarthy.

WILLIAM A. MUNDELL
CHAIRMAN

JIM IRVIN
COMMISSIONER

MARC SPITZER
COMMISSIONER



BRIAN C. McNEIL
EXECUTIVE SECRETARY

MARK SENDROW
DIRECTOR

SECURITIES DIVISION
1300 West Washington, Third Floor
Phoenix, AZ 85007-2996
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ARIZONA CORPORATION COMMISSION

MEMORANDUM

TO: Chairman William A. Mundell
Commissioner Jim Irvin
Commissioner Marc Spitzer

FROM: Mark Sendrow 
Director of Securities

DATE: April 10, 2002

RE: Bruce J. Blechman, et al. (S-03376A-02-0000); Proposed Order to Cease and Desist, Order for Restitution, Order for Administrative Penalties and Consent to Same by Bruce J. Blechman and Pre-IPO Venture Capital Fund, L.L.C.

CC: Brian C. McNeil, Executive Secretary

Attached is a proposed Order to Cease and Desist, Order for Restitution, Order for Administrative Penalties and Consent to Same ("Order") against Bruce J. Blechman ("Blechman") and the Arizona-based investment company, Pre-IPO Venture Capital Fund, L.L.C. (the "Capital Fund"). In short, this Order requires Blechman and the Capital Fund, collectively "Respondents," to cease and desist from any further violations of the Securities Act of Arizona ("Securities Act"), to cease and desist from any further violations of the Arizona Investment Management Act ("Management Act"), to pay restitution to investors in the amount of \$500,000, and to pay a subordinated administrative penalty in the amount of \$25,000.

This matter began in the latter part of 1998, when Blechman sought to create a small venture capital fund for the purpose of investing in a variety of developing start-up companies. Prior to establishing this fund, Blechman, through the assistance of counsel, constructed a website offering a series of articles discussing various techniques and advantages associated with venture capital investing. Through "hits" on this website, Blechman was able to develop a number of potential investor leads for his subsequent venture capital project.

In January of 1999, Blechman produced a private placement memorandum ("PPM") that outlined the business plans and strategies for his new venture capital company, the Capital Fund. According to the PPM, Blechman would serve as the sole managing member of the Capital Fund, and would control, operate and administer the securities offering on behalf of the Capital Fund. As detailed in the PPM, Blechman would also make the final determination on any venture capital outlays for the Capital Fund, but would only do so after consulting with an experienced advisory panel associated with the Capital

Fund. The PPM further made the claim that no more than 10 percent of investor funds raised for the Capital Fund project would go towards solicitation costs associated with the placement.

Through an alleged "private offering," Blechman sought to raise \$5,000,000 in investment capital for the Capital Fund project. To raise these funds, Blechman initially hired a small team of salesmen to solicit the funds from the Respondents' home base of Scottsdale, Arizona. Using the sales leads gathered from the website, the Arizona salesmen were only marginally successful in raising a small portion of the investment target. Blechman ultimately learned of a marketing company in Los Angeles that was purportedly successful in raising capital for private securities offerings. Blechman mailed a supply of Capital Fund PPMs to these marketers, who subsequently solicited a number of investors and raised a substantial amount of investor funds. However, this telemarketing firm quickly began charging exorbitant sales commissions for any successful solicitations. By the spring 1999, Blechman was paying up to 50 percent sales commissions for these sales. Moreover, some of the investor funds were not remitted back to Capital Fund accounts; accounting and investigative records show that some investor funds were paid directly to the Los Angeles telemarketers per the telemarketers' specific instructions.

Blechman ultimately fired the initial telemarketing group, but the marketing situation did not improve. The second sales group, also out of California, soon started charging nearly 45 percent in sales commissions once again. Unbeknownst to Blechman at the time, this second sales group actually had a number of business ties to the original Los Angeles telemarketers. Blechman eventually fired the second marketing group only to hire another telemarketing firm with the same intentions. Blechman once again found his Capital Fund paying from 35 to 50 percent sales commissions on investor funds raised by this third group. By the close of 1999, with the Capital Fund foundering, Blechman terminated the Capital Fund offering. By the time the offering was closed, 111 investors had invested approximately 2.9 million dollars.

Notwithstanding the exorbitant sales commissions exacted by the telemarketers, the Capital Fund did still receive roughly \$1,500,000 in investor funds. Of this amount, approximately \$400,000 was expended on legal fees, consulting fees, mailing expenses, rental payments and related business expenses. Blechman's new counsel also instructed Blechman to refund the investments made by 20 of the 111 Capital Fund investors, including those funds of the only two Arizona investors. Blechman did so, remitting a total of \$280,000 back to the 20 investors. These costs and refunds left the Capital Fund with a working balance of little more than \$800,000.

With these remaining funds, Blechman did attempt to invest in a series of developing companies. Blechman invested in seven separate start-up companies during 1999, although Blechman frequently failed to consult with any experienced advisory panel before making many of these investments. In total, Blechman invested approximately \$770,000 in the seven start-up companies, but with minimal success. None of these companies have successfully developed into profitable businesses, and there is little reason to believe that the companies will ultimately turn a profit for the Capital Fund.

The Order finds that the Capital Fund and Blechman offered and sold unregistered securities, offered and sold securities without the requisite registration, and made material misrepresentations to investors, particularly with regard to both the amount of sales commissions to be paid in connection with this offering as well as the consultation requirements associated with Blechman's investment decisions. The Order also finds that Respondents violated the Management Act by performing investment advisory services without the requisite licensure.

In light of these findings, the Order requires Respondents to cease and desist from any further violations of the Securities Act and Management Act, to reimburse investors in the amount of \$500,000, and to pay an administrative penalty in the amount of \$25,000 for multiple violations of the aforementioned acts. The administrative penalty is subject to a reduction to \$12,500 once full restitution to investors has been made. An initial \$50,000 payment is due upon approval of the Order, and Respondents will be required to make bi-annual payments of \$22,500 until the remaining balance is paid in full.

In reaching the terms of this Order, the Division had to consider a number of mitigating factors. Chief among these was the fact that Blechman has already refunded a total of over \$800,000 to investors since the offering commenced back in early 1999. Of this amount, almost \$600,000 was refunded to investors, on a pro rata basis, directly from the assets and reserves of Blechman family members. This restitution payment was made without the coercion of any governmental agency. The case file also reflects that the bulk of investor funds that were diverted from the Capital Fund project were in fact done so by out-of-state telemarketers, a network of salesmen that ultimately demanded Respondents' complicity. The money received by Blechman was in fact used largely for the intended purpose of the Capital Fund, to invest in developing start-up companies. Although these investments were a failure, the investments did illustrate that Respondents did intend this project to operate as a legitimate investment fund.

Still other mitigating factors have been considered. Blechman has cooperated with the Division since the outset of this case, including providing all financial records associated with the Capital Fund. Blechman has also provided the Division with information concerning several of the California telemarketers who orchestrated the sales component of this offering. The Division also recognizes that Blechman did not profit from this investment project, and has in fact already contributed almost \$600,000 in family funds on the Capital Fund prior to this Order. The Division also recognizes that there are no longer any Arizona investors implicated in this particular matter.

The Division recommends this Order on the grounds that it requires Respondents to make a substantial restitution payment to investors who had invested in the Capital Fund, while also assessing an administrative penalty to both discourage any further such conduct and to encourage the payment in full of the ordered restitution amount.

Originator: Jamie Palfai

AG Assigned: Moira McCarthy

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 WILLIAM A. MUNDELL
4 Chairman
5 JIM IRVIN
6 Commissioner
7 MARC SPITZER
8 Commissioner

9 **In the matter of:**

10 **BRUCE J. BLECHMAN**, an individual,
11 7122 East Night Glow Circle
12 Scottsdale, Arizona 85262-7048

13 **PRE-IPO VENTURE CAPITAL FUND, L.L.C.**,
14 an Arizona Limited Liability Company,
15 34522 North Scottsdale Road, Suite 615
16 Scottsdale, Arizona 85262,

17 Respondents.

)
) DOCKET NO. S-03376A-02-0000

)
) DECISION NO. _____

)
) **ORDER TO CEASE AND DESIST,**
) **ORDER OF RESTITUTION, ORDER**
) **FOR ADMINISTRATIVE PENALTIES**
) **AND CONSENT TO SAME BY:**
) **RESPONDENT BRUCE J. BLECHMAN**
) **and RESPONDENT PRE-IPO**
) **VENTURE CAPITAL FUND, L.L.C.**

18 Respondents Bruce J. Blechman and Pre-IPO Venture Capital Fund, L.L.C., collectively
19 "RESPONDENTS," elect to permanently waive their right to a hearing and appeal under Articles
20 11 and 12 of the Securities Act of Arizona, A.R.S. § 44-1801, *et seq.* ("Securities Act"), and
21 Articles 7 and 8 of the Arizona Investment Management Act, § 44-3101, *et seq.* ("Investment
22 Management Act"), in connection with this Order To Cease and Desist, Order of Restitution, Order
23 for Administrative Penalties and Consent to Same ("Order"). RESPONDENTS admit the
24 jurisdiction of the Arizona Corporation Commission ("Commission"); admit the Findings of Fact
25 and Conclusions of Law contained in this Order for the purpose of this proceeding only; and
26 consent to the entry of this Order by the Commission.

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I.

FINDINGS OF FACT

1
2
3 1. Bruce J. Blechman ("BLECHMAN"), whose last known address was 7122 East Night
4 Glow Circle, Scottsdale, Arizona, was the founder and general partner of Pre-IPO Capital Venture
5 Fund, L.L.C., a venture capital enterprise first established by BLECHMAN in 1998 for the purpose
6 of investing in various start-up companies.

7 2. Pre-IPO Venture Capital Fund, L.L.C. (the "FUND"), whose last known address was
8 34522 North Scottsdale Road, Suite 615, Scottsdale, Arizona, was a limited liability company
9 founded in Scottsdale, Arizona by Blechman for the purpose of investing pooled venture capital
10 into a range of developing companies.

11 3. During the latter part of 1998, BLECHMAN developed the concept of forming a
12 venture capital company in order to make investments in a number of developmental stage
13 companies in exchange for discounted equity interests in these companies.

14 4. As a method of identifying potential investors for this venture, BLECHMAN authored
15 an on-line newsletter discussing the many advantages of investing in developing, or "Pre-IPO,"
16 companies.

17 5. As a result of this newsletter and its on-line "hits," RESPONDENTS were able to
18 identify a potential investor listing for their venture capital fund concept.

19 6. On or about January 20, 1999, RESPONDENTS completed a private placement
20 memorandum ("PPM") for this project; the PPM outlined the goals of the FUND and disclosed
21 that the FUND sought to raise \$5,000,000 in investment capital.

22 7. The PPM stated that BLECHMAN would be the sole managing member of the FUND,
23 would control, operate and administer the security offering on behalf of the FUND, and would bear
24 ultimate responsibility for making all venture capital decisions on behalf of the FUND.

25 ...

26 ...

1 8. Attachments to the PPM also stated that prior to making any venture capital
2 investments with the investors' funds, BLECHMAN would perform a careful due diligence review
3 and would consult with an experienced advisory panel.

4 9. The offering materials also stated that only active members of the FUND would be
5 engaged in the offer and sale of this investment program, that there would be no commissions in
6 connection with these sales, and that the administrative costs associated with placing the FUND'S
7 membership units would not exceed \$500,000.

8 10. RESPONDENTS' PPM failed to make any disclosures with respect to the large
9 amount of commissions that would be paid to outside salesmen in connection with the offer and
10 sale of membership units in the FUND.

11 11. RESPONDENTS' PPM also made inadequate disclosures with regards to the type and
12 amount of risk associated with this investment opportunity.

13 12. The PPM also omitted that roughly 5 years prior, in 1993, managing member
14 BLECHMAN had filed for bankruptcy.

15 13. In late January of 1999, RESPONDENTS engaged a California marketing company
16 by the name of Utility Consulting Group ("Utility") to assist in the offer and sell membership units
17 in the FUND.

18 14. Utility, located in Los Angeles, California, began soliciting investors based on a
19 listing of prospective investors developed by RESPONDENTS in conjunction with Utility's own
20 marketing leads. RESPONDENTS mailed offering materials, including PPMs, to Utility to
21 facilitate their sales efforts.

22 15. According to subsequent investors in the FUND, many of the sales pitches from these
23 salesmen failed to disclose material information about the investment, particularly with regard to
24 the substantial commissions associated with the sale of FUND units.

25 ...

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1 16. In connection with the sale of FUND units, Utility salesmen received commissions at
2 a rate of approximately 35% to 50% of the amounts invested into the FUND. These sales
3 commissions were not disclosed to investors, either orally or in writing.

4 17. During this marketing phase for the FUND, BLECHMAN was pressed into increasing
5 the amount of commissions paid to these sales agents. Investment funds were also diverted
6 directly to Utility accounts on multiple occasions. These diverted investor funds were never
7 remitted to the FUND'S general accounts.

8 18. Blechman moved to end the FUND'S relationship with Utility in March of 1999. By
9 the time the relationship between RESPONDENTS and Utility had been terminated, this sales
10 group had diverted approximately \$57,000 in investor funds and had exacted at least \$32,000 in
11 commissions.

12 19. During the spring of 1999, RESPONDENTS sought to hire a different Los Angeles
13 marketing group to continue selling units in the FUND. In approximately May of 1999,
14 RESPONDENTS hired Galaxy Marketing Management ("Galaxy") to continue the marketing
15 efforts for the FUND.

16 20. Galaxy once again demanded substantial commissions for each sale, charging a
17 commission of approximately 35% on each FUND unit sold. The sales commissions paid by
18 RESPONDENTS to Galaxy sometimes reached up to 50% of the monies invested into the FUND.

19 21. Galaxy preferred to use sales leads primarily from their own sources. During their
20 period as RESPONDENTS' sales agents, Galaxy also diverted investment funds directly to their
21 own sales offices, at least some of which was never remitted to the FUND accounts.

22 22. During the period from May of 1999 to November of 1999, Galaxy retained over
23 \$605,000 in commissions from the sale of FUND units.

24 23. During the late spring of 1999, RESPONDENTS also hired a third Los Angeles
25 marketing group to offer and sell the remaining units available in their FUND.

26 ...

1 24. This third marketing group, Covenant Ventures, Inc. ("Covenant"), utilized sales leads
2 obtained from both RESPONDENTS and from their own databases. This marketing group
3 engaged in a pattern of providing misleading information to investors with respect to the FUND,
4 and investors recounted how the sales tactics were again often aggressive and/or deceptive.

5 25. As with the earlier sales operations, Covenant once again demanded exorbitant
6 commissions for their sale of FUND units, charging RESPONDENTS in excess of a 35%
7 commission on the majority of their FUND unit sales. Sales commissions reached upwards of
8 50% at some periods during 1999.

9 26. Ultimately, in the fall of 1999, BLECHMAN informed Covenant that the commissions
10 could no longer exceed 15%, and that no commission claims larger than that amount would be
11 paid. By the time sales activities from this third sales group came to a close, Covenant had exacted
12 at least an additional \$550,000 in sales commissions.

13 27. The sale of FUND units ultimately closed in approximately December of 1999. By
14 the time the sale of FUND units had ceased, RESPONDENTS had raised approximately
15 \$2,900,000 for the FUND from approximately 111 investors.

16 28. After consultations with replacement counsel, RESPONDENTS refunded the
17 investments of twenty of the FUND investors, including two Arizona-based investors. This
18 reimbursement, totaling \$280,000, came from FUND accounts.

19 29. Although the "private offering" raised approximately \$2,900,000 in investor funds, the
20 total amount actually reaching the FUND accounts totaled no more than \$1,300,000. The
21 remainder of the funds was spent primarily on commissions, legal fees and start-up costs. Sales
22 commissions alone consumed over \$1,300,000 of the investment funds.

23 30. BLECHMAN received some financial remuneration for managing the FUND,
24 consuming approximately \$170,000 of investor funds on personal and other miscellaneous
25 expenditures. Pursuant to the PPM, BLECHMAN was entitled to \$10,000 per month in
26 compensation for his managerial services in connection with the FUND.

1 31. The bulk of investment monies actually reaching the FUND were in fact invested in
2 several small start-up companies. These investments were selected by BLECHMAN without any
3 consideration from an advisory panel as prescribed in the FUND'S offering documentation.

4 32. Approximately \$770,000 in FUND assets was invested in seven separate start-up
5 companies. To date, none of these investments has produced any returns to the FUND, and few if
6 any of these start-up companies are now generating revenues. The FUND has determined to write
7 off these investments as capital losses.

8 33. After additional consultations with new counsel and other consultants,
9 RESPONDENTS attempted to provide a refund to the remaining investors who had made an
10 investment with the FUND. Approximately \$565,000 was refunded to the remaining FUND
11 investors on a pro rata basis from the personal family funds of BLECHMAN. In total, this
12 reimbursement constituted approximately 21% of the investments made by the remaining FUND
13 investors.

14 34. On September 15, 2000, RESPONDENTS filed an action in U.S. District Court for the
15 District of Arizona against William Conklin and Charles Koberg over the conduct of defendant
16 Conklin as legal counsel to the FUND (Case No. CIV 00-1770-PHX-SRB). The complaint
17 alleges, *inter alia*, that defendant Conklin made false and misleading representations under the
18 Securities Act of 1934 and the Nevada Revised Statutes in connection with his services for the
19 FUND.

20 35. RESPONDENTS have since cooperated with the Division in attempting to remedy the
21 Securities Act and Investment Management Act issues created by this offering. This cooperation
22 has included the disclosure of information and financial records relating to the sales operations of
23 the various organizations that offered and sold units in the FUND.

24 36. RESPONDENTS have also cooperated with the Division by providing full access to
25 company records, investment information and financial data.

26 ...

II.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

2. RESPONDENTS offered or sold securities within or from Arizona, within the meaning of A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).

3. RESPONDENTS violated A.R.S. § 44-1841 by offering or selling securities that were neither registered nor exempt from registration.

4. RESPONDENTS violated A.R.S. § 44-1842 by offering or selling securities while neither registered as dealers or salesmen nor exempt from registration.

5. RESPONDENTS violated A.R.S. § 44-1991 by offering or selling securities within or from Arizona by making untrue statements or misleading omissions of material facts.

6. RESPONDENTS violated A.R.S. § 44-3151 by acting as investment advisers or investment adviser representatives without licensure or exemption.

7. RESPONDENTS' conduct is grounds for a cease and desist order pursuant to A.R.S. §§ 44-2032 and 44-3292.

8. RESPONDENTS' conduct is grounds for an order of restitution pursuant to A.R.S. §§ 44-2032 and 44-3292.

9. RESPONDENTS' conduct is grounds for administrative penalties pursuant to A.R.S. §§ 44-2036 and 44-3296.

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III.**ORDER**

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3 THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, and the
4 RESPONDENTS' consent to the entry of this Order, the Commission finds that the following
5 relief is appropriate, in the public interest, and necessary for the protection of investors:

6 IT IS ORDERED, pursuant to A.R.S. §§ 44-2032 and 44-3292, that RESPONDENTS, their
7 agents, employees, successors and assigns, permanently cease and desist from violating the
8 Securities Act and Investment Management Act.

9 IT IS FURTHER ORDERED, pursuant to A.R.S. §§ 44-2032 and 44-3292, that
10 RESPONDENTS shall, jointly and severally, pay restitution to investors as shown on the records
11 of the Commission in the amount of \$500,000. Restitution shall be made in installments as
12 follows: an initial minimum payment of \$50,000, due and payable on the date of this Order;
13 subsequent semi-annual payments of at least \$22,500, commencing on or before the 1st day of
14 October, 2002, and continuing thereafter at six month intervals until the full restitution amount is
15 paid in full. Any due and payable balance as outlined above shall accrue interest at the rate of 10%
16 per annum from the scheduled date of payment until paid in full. Payment shall be made by
17 cashier's check or money order payable to the "State of Arizona" to be placed in an interest-
18 bearing account maintained and controlled by the Arizona Attorney General. The Arizona
19 Attorney General shall disburse the funds on a pro rata basis to investors. If all investors are paid
20 in full, any excess funds shall revert to the state of Arizona.

21 IT IS FURTHER ORDERED, pursuant to A.R.S. §§ 44-2036 and 44-3296, that
22 RESPONDENTS shall jointly and severally pay an administrative penalty in the amount of
23 \$25,000, payable to the "State of Arizona." Payment shall be made in full by cashier's check or
24 money order within 180 days from the date the ordered restitution is paid in full. This
25 administrative penalty shall be reduced in half to \$12,500 if and when the restitution balance as
26 outlined above is satisfied in full. If RESPONDENTS do not comply with the order for restitution

1 and administrative penalties, any outstanding balance may be deemed in default and shall be
2 immediately due and payable.

3 IT IS FURTHER ORDERED that this Order shall become effective immediately.

4
5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

6
7
8 CHAIRMAN

COMMISSIONER

COMMISSIONER

9
10 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,
11 Executive Secretary of the Arizona Corporation
12 Commission, have hereunto set my hand and caused
13 the official seal of the Commission to be affixed at
14 the Capitol, in the City of Phoenix, this _____ day
15 of _____, 2002.

16
17
18 _____
19 BRIAN C. McNEIL
20 Executive Secretary

21
22 _____
23 DISSENT

24
25 This document is available in alternative formats by contacting Shelly M. Hood, Executive
26 Assistant to the Executive Secretary, voice phone number 602-542-3931, E-mail
shood@cc.state.az.us.

(JP)

CONSENT TO ENTRY OF ORDER

1
2 1. Respondent Bruce J. Blechman ("BLECHMAN"), an individual, admits the
3 jurisdiction of the Commission over the subject matter of this proceeding. BLECHMAN
4 acknowledges that he has been fully advised of his right to a hearing to present evidence and call
5 witnesses and BLECHMAN knowingly and voluntarily waives any and all rights to a hearing
6 before the Commission and all other rights otherwise available under Article 11 of the Securities
7 Act, Article 7 of the Investment Management Act, and Title 14 of the Arizona Administrative
8 Code. BLECHMAN acknowledges that this Order to Cease and Desist, Order of Restitution,
9 Order for Administrative Penalties and Consent to Same (hereinafter "Order") constitutes a valid
10 final order of the Commission.

11 2. BLECHMAN knowingly and voluntarily waives any right he may have under Article
12 12 of the Securities Act and/or Article 8 of the Investment Management Act to judicial review in
13 any court by way of suit, appeal, or extraordinary relief resulting from the entry of this Order.

14 3. BLECHMAN acknowledges and agrees that this Order is entered into freely and
15 voluntarily and that no promise was made or coercion used to induce such entry.

16 4. BLECHMAN acknowledges that he has been represented by counsel in this matter,
17 that he has reviewed this Order with his attorney, and that he understands each of the terms and
18 conditions contained therein.

19 5. BLECHMAN admits the Findings of Fact and Conclusions of Law contained in this
20 Order for the purpose of this proceeding only. BLECHMAN agrees that he shall acknowledge the
21 existence of this Order in any present or future administrative proceeding before the Commission
22 or before any other state agency in connection with the issuance of any license or registration
23 required to engage in the practice of selling securities or provision of investment advisory services.

24 6. By consenting to the entry of this Order, BLECHMAN agrees not to take any action or
25 to make, or permit to be made, any public statement denying, directly or indirectly, any Finding of
26 Fact or Conclusion of Law in this Order or creating the impression that this Order is without

1 factual basis. BLECHMAN will undertake steps necessary to assure that all of his agents and
2 employees understand and comply with this agreement.

3 7. While this Order settles this administrative matter between BLECHMAN and the
4 Commission, BLECHMAN understands that this Order does not preclude the Commission from
5 instituting other administrative proceedings based on violations that are not addressed by this
6 Order.

7 8. BLECHMAN understands that this Order does not preclude the Commission from
8 referring this matter to any governmental agency for administrative, civil, or criminal proceedings
9 that may be related to the matters addressed by this Order.

10 9. BLECHMAN understands that this Order does not preclude any other agency or
11 officer of the state of Arizona or its subdivisions from instituting administrative, civil or criminal
12 proceedings that may be related to matters addressed by this Order.

13 10. BLECHMAN agrees that he will not apply to the state of Arizona for registration as a
14 securities dealer or salesman or for licensure as an investment adviser or investment adviser
15 representative until such time as all restitution and penalties under this Order are paid in full.

16 11. BLECHMAN agrees that he will not exercise any control over any entity that offers or
17 sells securities or provides investment advisory services, within or from Arizona.

18 12. BLECHMAN agrees that until restitution and penalties are paid in full, BLECHMAN
19 will notify the Director of the Securities Division within 30 days of any change in home address or
20 any change in BLECHMAN'S ability to pay amounts due under this Order.

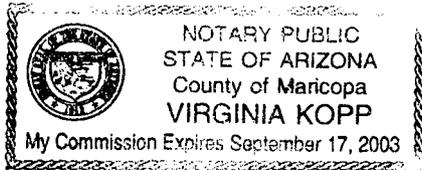
21 13. BLECHMAN understands that a default shall render him liable to the Commission for
22 its costs of collection and interest at the maximum legal rate.

23 14. BLECHMAN agrees that he will continue to cooperate with the Securities Division
24 including, but not limited to, providing complete and accurate testimony at any hearing in this
25 matter and cooperating with the state of Arizona in any related investigation or any other matters
26 arising from the activities described in this Order.

1 15. BLECHMAN consents to the entry of this Order and agrees to be fully bound by its
2 terms and conditions. If BLECHMAN breaches any provision of this Order, the Commission may
3 vacate this Order and restore this case to its active docket.

4
5 Bruce J. Blechman
6 Respondent Bruce J. Blechman

7
8 SUBSCRIBED AND SWORN TO before me, by Bruce J. Blechman, this 20th day of
9 MARCH, 2002.



11
12 Virginia Kopp
13 NOTARY PUBLIC

15 My Commission Expires:
16 SEPT. 17, 2003
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CONSENT TO ENTRY OF ORDER

1
2 1. Respondent Pre-IPO Venture Capital Fund, L.L.C. ("CAPITAL FUND"), an Arizona
3 entity, admits the jurisdiction of the Commission over the subject matter of this proceeding.
4 CAPITAL FUND acknowledges that it has been fully advised of its right to a hearing to present
5 evidence and call witnesses and that CAPITAL FUND knowingly and voluntarily waives any and
6 all rights to a hearing before the Commission and all other rights otherwise available under Article
7 11 of the Securities Act, Article 7 of the Investment Management Act, and Title 14 of the Arizona
8 Administrative Code. CAPITAL FUND acknowledges that this Order to Cease and Desist, Order
9 of Restitution, Order for Administrative Penalties and Consent to Same (hereinafter "Order")
10 constitutes a valid final order of the Commission.

11 2. CAPITAL FUND knowingly and voluntarily waives any right it may have under
12 Article 12 of the Securities Act and/or Article 8 of the Investment Management Act to judicial
13 review by any court by way of suit, appeal, or extraordinary relief resulting from the entry of this
14 Order.

15 3. CAPITAL FUND acknowledges and agrees that this Order is entered into freely and
16 voluntarily and that no promise was made or coercion used to induce such entry.

17 4. CAPITAL FUND acknowledges that its principal has been represented by counsel in
18 this matter, that it's principal has reviewed this Order with his attorney, and that it's principal
19 understands each of the terms and conditions contained therein.

20 5. CAPITAL FUND admits the Findings of Fact and Conclusions of Law contained in
21 this Order for the purpose of this proceeding only. CAPITAL FUND agrees that it shall
22 acknowledge the existence of this Order in any present or future administrative proceeding before
23 the Commission or before any other state agency in connection with the issuance of any license or
24 registration required to engage in the practice of selling securities or provision of investment
25 advisory services.

26 . . .

1 6. By consenting to the entry of this Order, CAPITAL FUND agrees not to take any
2 action or to make, or permit to be made, any public statement denying, directly or indirectly, any
3 Finding of Fact or Conclusion of Law in this Order or creating the impression that this Order is
4 without factual basis. CAPITAL FUND will undertake steps necessary to assure that all of its
5 agents and employees understand and comply with this agreement.

6 7. While this Order settles this administrative matter between CAPITAL FUND and the
7 Commission, CAPITAL FUND understands that this Order does not preclude the Commission
8 from instituting other administrative proceedings based on violations that are not addressed by this
9 Order.

10 8. CAPITAL FUND understands that this Order does not preclude the Commission from
11 referring this matter to any governmental agency for administrative, civil, or criminal proceedings
12 that may be related to the matters addressed by this Order.

13 9. CAPITAL FUND understands that this Order does not preclude any other agency or
14 officer of the state of Arizona or its subdivisions from instituting administrative, civil or criminal
15 proceedings that may be related to matters addressed by this Order.

16 10. CAPITAL FUND agrees that it will not apply to the state of Arizona for registration
17 as a securities dealer or salesman or for licensure as an investment adviser or investment adviser
18 representative until such time as all restitution and penalties under this Order are paid in full.

19 11. CAPITAL FUND agrees that it will not exercise any control over any entity that
20 offers or sells securities or provides investment advisory services, within or from Arizona.

21 12. CAPITAL FUND agrees that until restitution and penalties are paid in full, CAPITAL
22 FUND will notify the Director of the Securities Division within 30 days of any change in address
23 or any change in CAPITAL FUND'S ability to pay amounts due under this Order.

24 13. CAPITAL FUND understands that a default shall render it liable to the Commission
25 for its costs of collection and interest at the maximum legal rate.

26 ...

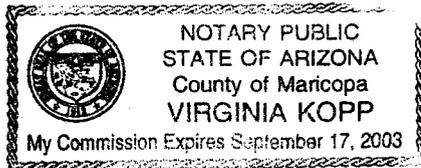
1 14. CAPITAL FUND agrees that it will continue to cooperate with the Securities Division
2 including, but not limited to, providing complete and accurate testimony at any hearing in this
3 matter, providing corporate documents and financial information from CAPITAL FUND'S record
4 repository as requested, and cooperating with the state of Arizona in any related investigation or
5 any other matters arising from the activities described in this Order.

6 15. CAPITAL FUND consents to the entry of this Order and agrees to be fully bound by
7 its terms and conditions. If CAPITAL FUND breaches any provision of this Order, the
8 Commission may vacate this Order and restore this case to its active docket.

9
10
11 Pre-IPO Venture Capital Fund, L.L.C.

12
13 By: Bruce J. Blechman
14 Its: Managing Member

15
16 SUBSCRIBED AND SWORN TO before me, by Bruce J. Blechman, this 20th day of
17 MARCH, 2002.



22 Virginia Kopp
23 NOTARY PUBLIC

24 My Commission Expires:
25 SEPT. 17, 2003