

STATE OF ARKANSAS  
SECURITIES DEPARTMENT

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IN THE MATTER OF

WESTMINSTER HOLDINGS, LTD.,  
ROBERT HAMMERSTEIN,  
DONOVAN C. DOUGLAS,  
COMPCLUBCASINO.COM, INC.,  
and ALL PERSONS  
EMPLOYED BY OR OTHERWISE  
AFFILIATED WITH ANY OF THOSE  
ENTITIES OR PERSONS

No. 00-47-S

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ORDER TO CEASE AND DESIST AND  
DENIAL OF EXEMPTIONS

The Staff of the Arkansas Securities Department (the Staff) has received information and has in its possession certain evidence which indicates that WESTMINSTER HOLDINGS, LTD., ROBERT HAMMERSTEIN, DONOVAN C. DOUGLAS and COMPCLUBCASINO.COM, INC., have violated provisions of the Arkansas Securities Act (the Act), codified at Ark. Code Ann. §§ 23-42-101, *et seq.* (Repl. 1994), as well as various Rules of the Arkansas Securities Commissioner (the Rules).

FINDINGS OF FACT

1. Westminster Holdings, Ltd. (Westminster) is a Delaware corporation located at 83 Maiden Lane, 13<sup>th</sup> Floor, New York, New York, 10038, and formerly located at 199 Puritan Avenue, Forest Hills, New York, 11375 and 330 West 42<sup>nd</sup> Street, New York, New York, 10036. Westminster purports to be an international investment banking,

merchant banking and financial services firm.

2. Robert Hammerstein (Hammerstein) is the chief operating officer and managing director of Westminster and the owner of 50% of the stock of Westminster through his company, Gourmet Foods, Inc.
3. Donovan C. Douglas (Douglas) is a vice president of Westminster.
4. Compclubcasino.com, Inc. (Compclub) purports to be a Delaware corporation incorporated on 22 March 2000 with the intent to invest in online casino and sports book operations in off-shore casino and sports book companies offering their services in places where such services are not illegal. Its address is the same as that of Westminster, 83 Maiden Lane, 13<sup>th</sup> Floor, New York, New York, 10038.
5. On or about 7 May 2000, Douglas contacted an Arkansas resident (Prospect) by telephone and told him about an investment opportunity in Compclub stock. On that same day Douglas caused a packet of written materials, including a document entitled Offering Document, by first class mail. The Offering Document revealed that Prospect was being offered units in Compclub which consisted of 25,000 shares of common stock in Compclub for \$25,000 each.
6. On 12 May 2000 Douglas called Prospect to tell him more about the offering. Douglas told Prospect that the offering was a small offering under Rule 504. The Offering Document stated that the offering was exempt from registration under Rule 504 of Regulation D of the Securities Act of 1933. Douglas told Prospect that the offering was

“Blue Sky” in every state, which he said meant that something was filed, i.e., that it was registered, with every state. A search of the records of the Arkansas Securities Department (the Department) shows that there is no record of any filing concerning this offering.

7. Douglas told Prospect in the 12 May conversation that Compclub would be starting and operating casino gambling online outside the United States, where such was legal. The largest market Douglas knew of was the People’s Republic of China.
8. Douglas told Prospect on 12 May that Westminster would be taking Compclub public in about three weeks and that Prospect’s profit was a certainty:

This is an earnings industry. Making 30 cents on every dollar is your profit in this business. This is the only business in which you have a mathematical certainty. You will win. You will make money.

The only way Prospect could lose money, Douglas said, was “if all the PC’s were to shut down at the same time, but that is not possible.” If Prospect would agree to buy this stock, hold it and sell it only when Douglas or Westminster would tell Prospect to sell, Douglas told him that he would do quite well: “What I would recommend to you is [to] go into this deal and expect that by next year you’ll be at least 20 times richer, if not more.” Douglas told Prospect that he and Westminster had been making their clients 4,000% to 5,000% returns on their money over a twelve month period in this way.

9. When asked about a track record for Compclub, which Prospect thought had been operating for some time somewhere, Douglas informed Prospect of Westminster’s track

record. He gave the example of several companies that Westminster had taken public. Starnet Communications had gone public two years before at 5¢ a share and was then trading at \$7.50. YouBet.com went public at 3¢ a share and was then trading at \$5.50. Anchor Gaming was a company that most resembled Compclub, Douglas said. It went public at \$1 per share, but was then trading at \$42 a share in only a year and a half, Douglas said. In fact, Starnet Communications had gone public in September, 1997 at \$1.875 per share and was trading during the week in question at a high of \$4.187 per share; YouBet.com had gone public in August, 1996 at \$3.25 per share and was trading during the week in question at a high of \$3.50 per share; and, although Anchor Gaming was in fact trading at approximately \$42 per share on the date in question, it went public in February, 1994 at \$14.25 per share.

10. The Offering Document contained a two page list of twelve (12) risk factors headed with a warning in all uppercase letters that these shares of stock are speculative and should be purchased only by persons who can afford to lose their entire investment. Douglas mentioned none of these risks.

11. Prospect asked Douglas if he was registered as a broker or had some sort of license to be offering this investment. Douglas told him that Westminster was a registered investment banking firm and that Westminster offers investment adviser services and that he, Douglas was registered or licensed because he had to be. In fact, neither Westminster, nor Douglas were registered in accordance with the Act or federal law as an investment

adviser or an agent of an investment adviser.

12. On 13 October 1998 the Pennsylvania Securities Commission issued a summary cease and desist order against Westminster, Hammerstein and another person not here involved. It was found that Westminster had offered for sale units in Westminster consisting of 150,000 shares of Westminster stock for \$25,000 each or a half unit for \$12,500 each. Because the stock was not registered under Pennsylvania law, Westminster and Hammerstein were ordered to cease and desist. The existence of this order was not disclosed to Prospect in the 12 May 2000 telephone conversation with Douglas.

### CONCLUSIONS OF LAW

13. Ark. Code Ann. § 23-42-102(15)(A)(ii) (Supp. 1999) defines security as stock.
14. Ark. Code Ann. § 23-42-501 (Repl. 1994) provides that it is unlawful for any person to offer or sell any security which is not registered or which is not exempt from registration under the terms of the Act.
15. Ark. Code Ann. § 23-42-301(a) (Repl. 1994) prohibits as unlawful the transaction of business as a broker-dealer or agent by any person who is not registered with the Arkansas Securities Department as such.
16. Ark. Code Ann. § 23-42-507(2) (Repl. 1994) provides that it is unlawful for any person in connection with the offer or sale of any security to make any untrue statement or omit to state a material fact necessary in order to make the statements made not misleading in light of the circumstances under which they are made.

17. Ark. Code Ann. § 23-42-505(a) (Supp. 1999) provides that the Commissioner may issue an order revoking any exemption from registration provided for in the Act or the Rules with respect to any specific security or transaction.

#### OPINION

18. This matter has been properly brought before the Arkansas Securities Commissioner in accordance with Ark. Code Ann. §§ 23-42-201 and 209 (Repl. 1994).
19. The respondents have offered to sell stock without prior registration of those securities in violation of Ark. Code Ann. § 23-42-501 (Repl. 1994).
20. The respondents have offered to sell stock without being registered with the Department as a broker-dealer or an agent of a broker-dealer in violation of Ark. Code Ann. § 23-42-301(a) (Repl. 1994).
21. As set forth in ¶ 9, *supra*, Douglas made misrepresentations of fact when he told Prospect that three companies Westminster had taken public at stock prices of 3¢, 5¢ and \$1 per share— much lower than the actual opening prices for these stocks— and were then trading at much higher prices, resulting in greater profits for those who had purchased the stock in the initial public offering than was really the case. This was a violation of Ark. Code Ann. § 23-42-507(2) (Repl. 1994).
22. The representations Douglas made to Prospect set out in ¶ 8 that making a profit on this investment was a mathematical certainty were misleading in light of Douglas's failure to inform Prospect of 1) the risks involved, set out in the Offering Document and referred to

in ¶ 10, and 2) information from an independent source showing that this was a reasonable expectation of profit from this investment or one like it in this industry. This was the omission of material facts that were necessary to make the statements made about the probability of profit and the risks involved not misleading in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 1994).

23. Douglas's false statement that both he and Westminster were registered or licensed to sell securities in Arkansas was an untrue statement made in connection with the offer to sell securities in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 1994).
24. Douglas's and Westminster's failure to inform Prospect of the Pennsylvania cease and desist order was the omission of material facts in violation of Ark. Code Ann. § 23-42-507(2) (Repl. 1994).
25. Pursuant to Ark. Code Ann. § 23-42-209(a)(1) (Supp. 1997), the Commissioner can and should order the respondents to immediately cease and desist from the further solicitation and sale of the securities described above, to immediately cease and desist from the collection of additional funds from any current investors and to immediately cease and desist from further violations of the Arkansas Securities Act.
26. The misrepresentations and material omissions of fact set out in ¶¶ 6, 8, 9, and 11 were violations of Ark. Code Ann. § 23-42-507(2) (Repl. 1994) and constitute grounds for denial of all exemptions specified in Ark. Code Ann. § 23-42-503 and 504 (Supp. 1994), as well as those set out in the Rules pursuant to Ark. Code Ann. § 23-42-504(a)(12)

(Supp. 1999). Pursuant to Ark. Code Ann. § 23-42-505(a) (Supp. 1999), the Commissioner can and should order all possible exemptions, including all non-filing and self-executing exemptions, denied.

27. This order is in the public interest.

### ORDER

IT IS THEREFORE ORDERED that WESTMINSTER HOLDINGS, LTD., ROBERT HAMMERSTEIN, DONOVAN C. DOUGLAS and COMPCLUBCASINO.COM, INC., as well as others whose identities are not yet known who are in positions of control of WESTMINSTER HOLDINGS, LTD. and/or COMPCLUBCASINO.COM, INC. or enterprises associated with those business entities, ROBERT HAMMERSTEIN and/or DONOVAN C. DOUGLAS, directly or through other companies or business entities, **CEASE and DESIST** from any further actions in the State of Arkansas in connection with the offer or sale of the securities described above until such time as the securities are properly registered or exempted from registration by express written permission of the Commissioner pursuant to the Arkansas Securities Act and the persons offering them for sale are properly registered pursuant to the Arkansas Securities Act.

IT IS FURTHER ORDERED that all exemptions from the registrations provisions of the Act specified in Ark. Code Ann. § 23-42-503 and 504 (Supp. 1994), as well as all exemptions set out in the Rules pursuant to Ark. Code Ann. § 23-42-504(a)(12) (Supp. 1999), are hereby denied pursuant to Ark. Code Ann. § 23-42-505(a) (Supp. 1999) until such time as the Commissioner otherwise directs in writing.

WITNESS MY HAND and SEAL this 7<sup>th</sup> day of September, 2000.

A handwritten signature in black ink, appearing to read "Mac Dodson", written over a horizontal line.

Mac Dodson  
ARKANSAS SECURITIES COMMISSIONER