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Philadelphia Exchange Investigates Chairman Over Contract

By LESLIE EATON
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The Philadelphia Stock Exchange is investigating its chairman for investing in a small company that subsequently won a major contract with the exchange -- a contract that was the main attraction when the company sold shares to the public this year.

The exchange has hired a lawyer to investigate the relationship between Vincent J. Casella, its chairman since March, and the Ashton Technology Group of Columbia, Md.

Mr. Casella invested in the company in April 1995, before he became chairman but while he headed a committee of the exchange that recommended entering into the deal with Ashton. Last September, the company contracted with the exchange to develop a special trading system for institutional investors; Ashton went public in May.

The investment was first reported in the Aug. 26 issue of Securities Week, a newsletter covering the brokerage industry.

Mr. Casella was in Hong Kong yesterday and could not be reached for comment, according to Medford Financial, an institutional brokerage firm of which he is a principal.

But in a letter dated Aug. 29 and addressed to the exchange's governors and members, which was obtained from a member of the exchange, Mr. Casella defended the investment and denied that he "acted to bring about personal gain at the expense of the exchange." He complained that "rumors and innuendo" to that effect "cast an unseemly light on the exchange and are plainly born of a political agenda that is detrimental to the exchange."

In a statement, the exchange said the outside counsel would investigate "the relationship of certain of its members" to Ashton, and report to the exchange's governors "in due course."

"No conclusions have been drawn regarding the facts in this matter, and the exchange urges others to do the same," the statement concluded. A spokeswoman for the exchange declined to expand on the statement, even to say whether the trading system exists yet. Ashton officials did not return telephone calls yesterday.

Details of Mr. Casella's investment appear in Ashton's preliminary prospectus, which was filed with the S.E.C. in April. But the prospectus does not identify him as the chairman of the exchange, and exchange officials do not appear to have been aware of his investment, which at one point in May was worth more than $2 million and at yesterday's prices was worth about $855,000.

Mr. Casella said in his letter that he was not responsible for bringing Ashton to the exchange. But at a meeting of the exchange's executive committee on April 20, "I endorsed the implementation of the system which, in my view, would well serve the interest of the exchange's membership and their customers." The panel authorized a letter of intent between the exchange and Ashton.

Ten days later, Mr. Casella and his partners at Medford Financial received shares in Ashton's subsidiary in return for agreeing to lend the company money and "to provide certain consulting services" to Ashton, according to the prospectus.

Mr. Casella said he did not attend the meeting, in June 1995, at which the board gave approval to the letter of intent. But he did attend the meeting in September at which the board approved the final contract.

In October, Medford's holdings were converted into 400,000 shares of Ashton in return for a $100,000 loan, which indicates that the shares were valued at pennies apiece, at most.

Mr. Casella owned 152,000 of Medford's 400,000 shares of Ashton, according to the prospectus. He has not sold any of his shares, he said in his letter.

In May, Ashton sold 2.15 million shares for $4.50 apiece in an offering that also included warrants sold for 25 cents each. The underwriter was the First United Equities Corporation, which was doing its first initial public offering, the prospectus said.

Ashton's shares rose as high as $15.50 in late May, apparently on news of the exchange's new trading system. But the stock tumbled at the end of June, and yesterday dropped to a low of $5.625.

The prospectus indicates that the exchange has few obligations under the contract, which requires Ashton to reimburse the exchange for its costs and pay it royalties if the new trading system succeeds in getting institutions to use it.

But Ashton does not have many other attractions. Its other main business, Computer Science Innovations Inc., is an ailing government contractor that is struggling to sell its services to the private sector; Ashton lost close to a million dollars in the second quarter, according to filings with the Securities and Exchange Commission.

The shares Mr. Casella received did not come from Ashton, but from the Dover Group, a private family corporation in Toms River, N.J., which was a founder of Ashton. Dover was represented in the Ashton deals by Frederic W. Rittereiser, who is member of the family that controls Dover but who does not own shares in it or Ashton, according to the prospectus.

Mr. Rittereiser, who could not be reached for comment, is a former president of Instinet, a major electronic trading system for institutions. He is also the former chairman of First Jersey Securities, which was sold under regulatory pressure. The National Association of Securities Dealers, which licenses brokers and securities executives, revoked his membership in 1994 for failing to pay an arbitration award. Mr. Rittereiser has hired a lawyer to try to reverse the revocation, according to the prospectus.

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