Salt Lake City Penny Stocks: The Wolves of Main Street

By Rod Decker

“I’d do it again,” said John Worthen of his penny-stock career, a surprising assertion considering “hustling penny stock” landed him twice in federal prison, once for transporting stolen securities across state lines and a second time for tax evasion. When he was interviewed in 2019, Worthen was seventy-eight, hale, with a short, grizzled beard, a long jaw, and a lupine grin. His graying hair was brushed straight back and hung irregularly below the collar of his black, crew-necked sweater and the golden chain around his neck. Worthen often laughed and enjoyed telling stories from a career of dubious legality. “I had seventy or eighty companies in my time,” he said. He began in penny stocks in the 1970s, and a case involving Internal Revenue Service (IRS) claims for $12 million in taxes from a Worthen scheme finally concluded in 2018.

Worthen’s escapades came near the end of more than a century of low-priced stock promotion and trading in Salt Lake City. This article sketches the history of Salt Lake stocks from 1873 through the uranium boom that ended in 1956; it then focuses on the Salt Lake City penny-stock market that flourished from the 1960s into the late 1980s, when it was killed by regulation and prosecution. For their first ninety years, Salt Lake securities centered on Utah mining ventures. But the penny-stock industry after the 1960s specialized in “going public by the back door,” that is, in “shells” or “blind pools” that took advantage of loopholes in the law to offer cheaper, easier ways to obtain the legal registration required before a stock could be publicly sold. In addition, many companies sold penny stocks in Salt Lake City to raise capital for businesses, mostly non-mining businesses. Many issues and people in the Salt Lake penny-stock business were honest, but the market also harbored criminals and capers and contributed to a lasting reputation for Utah as a fraud capital.

In July 1873, a small report in the Salt Lake Herald Republican told of a “large enthusiastic” meeting in Captain Joab Lawrence’s office to found a Salt Lake Stock Exchange. The paper named fifty men who would be members. The next month, four Salt Lake Daily Tribune stories reported trading. Investors bought and sold shares in mines, three proposed Utah...
railroads, a smelter, and shares in the Salt Lake Daily Tribune. After the four articles, there was no notice of demise, but the exchange was not mentioned again.

Boosters might have attempted to create a second exchange in 1888, but if so, it also died quickly. In 1896, however, the Salt Lake Stock and Mining Exchange opened, prospered, and endured. At the end of 1899, a full-page advertisement in the Salt Lake Herald boasted that mining ventures listed on the exchange had paid $3,743,750 in dividends that year, and fifty-one-million shares changed hands for a total of $16,999,927.

In 1909 the Exchange moved into a new building on what is now Exchange Place but was then Cactus Street. Samuel Newhouse, who had made a fortune in Bingham Canyon copper, donated the land. Already he had erected the city’s two tallest buildings, the Boston and the Newhouse, on Cactus Street, and he soon gave another lot to the Salt Lake Commercial Club. The three-story, stone Exchange Building had a large room with a horseshoe-shaped brass railing, a dais, and a blackboard, where members auctioned shares, and additional rooms for brokers’ offices.

The Salt Lake Exchange was one of more than twenty-five American regional stock exchanges, almost all of them now defunct. They all sought to raise money for local business ventures and so reflected the character of their local economies. In Utah, mines needed venture capital, and some found their financing on the exchange. The Salt Lake Stock Exchange never counted much in the national economy. In 1959, the SEC reported the value of Salt Lake stocks were .03 percent of the total value of stocks in America.

Utah first regulated securities with a blue sky law in 1919. Blue sky was securities slang for worthless, as in selling “so many feet of blue sky.” Utah joined a trend for blue-sky laws that began in Kansas in 1911 and moved from state to state. In 1918, questionable oil stocks were being sold in Utah from out of state. Salt Lake City passed a blue sky ordinance and temporarily stopped such sales in the city. The Utah Democratic Party called for state regulation at its convention, and the Democratically controlled legislature passed a blue sky bill and created a state securities commission by large majorities in 1919.
The new Utah Securities Commission soon ran into trouble. In 1922, commissioners licensed Great Western Coal Company to sell $1.5 million in stock, and the commission secretary signed a letter saying the company owned leases to 60 million tons of coal, worth $6 million. The company showed the letter to potential stock buyers. Legislators investigated in 1925, and found that when the letter was written, Great Western had no coal leases. As another part of its sales pitch, the company featured world heavyweight champion Jack Dempsey, who sat on the board of directors. Dempsey and his manager had invested no money but received 20 percent commissions on stock sales. Great Western was the chief example, but legislators found other bad cases too. The 1925 state legislature changed the law to stop the abuses.17

Accusations of sharp Wall Street practice after the crash of 1929 led a New Deal Congress to pass the Securities Act of 1933 and the Securities Exchange Act of 1934, which created the Securities Exchange Commission (SEC) and soon made securities America’s most regulated industry.19 The Salt Lake Exchange registered with the SEC, but federal regulators concentrated on high finance and barely noticed Utah. The Salt Lake Exchange was quiet during the Depression but had some of its best years when World War II drove up the price of metals and Utah mines prospered.20

On March 24, 1954, more shares of stock traded in Salt Lake City than in New York City. The uranium boom was the peak of Utah’s stock industry. The federal government offered big money for the uranium needed to make bombs. In response, more people spent more hours searching for uranium than people had ever spent prospecting for all other minerals combined, according to the Atomic Energy Commission.21 Uranium companies sprouted in Salt Lake City, and most of them raised money for mines and mills by selling stock for a penny or a few cents a share. Before the boom, Salt Lake City had twenty brokerage houses with fewer than one hundred salesmen. By 1955, eighty brokerages employed 467 salesmen, many of them selling uranium shares.22 The SEC opened a Salt Lake City branch office. Tales of adventures, riches, and misfortunes in uranium fill books and articles.23 In contrast, few stories of the later penny stock market have been recorded.24 New investors, enticed into the uranium market, were left with losses in 1956 when the government said it had enough of the metal and cut payments. Subsequent congressional hearings revealed financial bad practice and fraudulent promotions. But as the law professor Wallace Bennett wrote, “Throughout the entire uranium boom and its aftermath of investor disillusionment . . . not one criminal case was carried to trial and conviction for violation of securities law.”25 Wrongdoing tarnished Utah’s reputation, but the rule-breakers went free.
On the Salt Lake City board,  
Buy a block of penny stock,  
Buy all you can afford.26

That ditty, repeated nationally with no author named, announced the resurgence of Salt Lake penny stocks a decade after the uranium bust. The SEC sent a special team to Salt Lake City in 1969 to investigate “wild penny-stock action.” Old uranium stocks, most of which had been out of business for years, were selling at figures “astronomically higher than their ascertainable values,” the New York Times reported.27 One stock sold at forty-five times its original price. Another rose from three cents to fifty cents a share. The new penny market adapted old mining-stock ways to new, nonmining companies. A company called Ammon was said to have a phone attachment that would display the numbers of incoming callers. Its stock rose from ten cents to twelve dollars a share, before the number-revealing device proved just a rumor and the stock became worthless.28 Uranium stocks, and by extension Utah penny stocks, still had a bad reputation from the uranium bust. Established New York brokers didn’t want to deal in them. Merrill Lynch ruled that a broker would receive no commission for trading a stock priced under three dollars; F. I. DuPont’s New York headquarters checked the Salt Lake City office daily to make sure penny transactions remained a small percentage of total business. Brokers who dealt with customers were required to caution any client who wanted to buy a penny stock.29 Salt Lake brokers felt caught between their bosses and their customers. “They don’t want a lecture. They want me to make a buy order;” one broker said of his clients.30 To serve the business shunned by New York brokers, new local brokerages specializing in penny stocks opened in Salt Lake City. The number of licensed broker-dealers in Utah rose from eighty-two in 1966 to 185 in 1969.31

Frank Langheinrich went to work for Prince-Covey and Company, one of the new brokerages, soon after he graduated from high school in 1968. “I may have been the youngest licensed broker in the country;” he said. Penny stocks offered young people opportunity. The owners of Prince Covey were in their twenties, and “They were the ‘old guys,’” Langheinrich recalled. “I asked my relatives to buy stock, and I made cold calls”; that is, he called people he didn’t know and offered to sell them penny stock. He was paid a commission, and he earned from $10,000 to $12,000 a year, a high income for a young man in those days. Langheinrich later opened his own brokerage but was shut down by the SEC for failing to maintain sufficient cash reserve. He left the securities business and became a winning high school debate coach.32

Carl Teel worked as a broker for Universal Underwriters while he was going to college. “I was fairly aggressive,” he remembered. “I took all the Bs in the Bountiful phone book, and sent them a letter, introducing myself. I met with people in their homes. I’d look at their portfolio and do research on their stocks, and tell them which ones to sell and which ones to keep.” Teel was studying business at the University of Utah, including how to evaluate a company’s worth. He thought that was what brokers did. “I took it more seriously than it was intended to be,” he said of his job. “I really didn’t understand the business.” Teel did not make much money, and one time he sold stock to a customer who failed to pay—leaving Teel to make up the company’s loss. Worse, he got mixed up with some promoters of a new offering. The promoters kept most of the stock themselves and offered a minority of the stock to the public. “They urged people to mortgage their homes to put money in the stock. Then when the stock went up, they dumped all their stock and crashed the market,” Teel said. “I realized I’d been a cog in that machine, and damaged people’s lives. Ethically, I couldn’t deal with it.” Teel quit the brokerage and eventually opened The Piano Shop in Bountiful.33

Penny stocks bypassed the old Salt Lake Stock Exchange. Beginning in the uranium boom, more stocks were sold over the counter, and after the uranium bust, the exchange declined over thirty years toward demise. In 1959, the exchange listed ninety companies, but thirty-nine of them were inactive shells. Ted C. Poulsen, the exchange secretary, complained that to list on the exchange a company had to register with the SEC, and registration rules filled nineteen pages of small print. So many new companies avoided the exchange and traded over the
counter. In 1972, with only forty-nine companies listed, the name was changed to the Intermountain Stock Exchange. Members hired a public relations firm and invited Japanese companies, among others, to come and trade, but exchange fortunes continued to fall. The handsome building that Samuel Newhouse had subsidized was sold, and exchange members divided the proceeds. Trading was then limited to an hour a day in the brokerage office of Robert P. Woolley, exchange president. The SEC asked for higher enforcement standards, and unable to afford that expense, members voted to disband in 1986. “It’s a sad thing,” Woolley said of the closure.

Although the Salt Lake Stock Exchange did not grow with penny stocks, it provided the soil for their growth. Three cities led the nation in penny stocks: Denver, Salt Lake City, and Spokane, Washington. All three had old mining-stock exchanges. Decades of trading on the exchanges built “infrastructure,” according to former Utah state securities director Wayne Klein. Those cities had transfer agents, lawyers who knew security law, accountants skilled in new issues, and promoters who knew how to bring a company to market. Many members of that infrastructure made money when cheap stocks thrived, and in lean years they waited and looked for ways to revive the trade.

Besides selling over the counter, Prince-Covey “made a market” in some stocks. To make a market, a brokerage firm traded the stock in its own account and tried to keep the market “liquid.” That is, if someone wanted to buy or sell, the brokerage would use its own inventory to obligate, at a profitable price. Prince-Covey had a trading room with thirty to forty telephones, each a direct line to another brokerage that made a market in stocks. The trading room also had a daily copy of the Pink Sheets, which listed most of the 13,000 over-the-counter stocks trading nationally, a recent price for each, and a telephone number to a brokerage making a market. A trader might take an order from a customer, look the stock up in the Pink Sheets, call the market maker, and negotiate a trade. But that was not unusual. “A good trader knew where he could get stock. He knew the market,” said David Nelson, part owner and trading manager at Prince-Covey. Traders acted quickly to buy or sell. The difference between the price a trader paid to buy a stock and the price at which he sold it to the customer was called the “spread.” Traders were paid no salaries, but they kept half the spread on every transaction. The brokerage house kept the other half. “Traders who were any good were gamblers,” Nelson said. “They made most of their money selling short.” That is, a customer would call to buy at a price quoted in the newspaper or the Pink Sheets, and the trader would often fill the order at the lowest price he could find someone offering the stock, even though he hadn’t bought the stock. He believed he could find someone later to sell the stock at an even lower price. If he succeeded, he kept half the difference. But if he couldn’t buy at a lower price, he had to buy at a higher price than he had sold the stock for, and then he paid half the loss. “It was highly incentivized,” Nelson recalled, smiling in remembrance of frantic calls to find shares sold but not owned. Many traders lost money and left the business. Most who stayed bet rightly most times. “Traders made a lot of money,” Nelson said.

Of the thirty or so Salt Lake brokerages founded to trade penny stocks, only Wilson-Davis remained in 2020. “I don’t know why we were the only one to survive,” said Lyle Davis, who started the firm more than fifty years before. “We tried to adapt to the market,” added Byron Barkley, who worked for the company since it opened. Besides trading stock, Wilson-Davis sometimes underwrote new companies that wanted to sell penny-stock shares. They tried to pick companies with a good chance of success. On Wall Street, underwritings are “firm”; that is, the underwriter guarantees to sell all the shares and to raise a specific sum. But in the penny-stock market all underwritings were “best effort.” The underwriter offered the stock but with no guarantees. Lawyers were hired to write a prospectus of financial and business information on the new company. “We’d have a meeting of all our salesmen,” said Lyle Davis. The assembled sales force would be told about the company and its prospects, and then managers asked “how much stock the salesmen thought they could sell.” Each salesperson would then be assigned an allotment of the new shares. The salespeople would call their customers and sell the stock. Sometimes other brokerages would join Wilson-Davis in
a syndicate, and those brokers would also take an allotment of shares. Wilson-Davis and other penny-stock houses sold new issues through their established networks of salespeople, customers, and other brokerage houses.

In 1977, Stephen L. Hunsaker studied all the new penny-market issues he could find between 1970 and 1977, 138 in all. He tried to track each stock for two years, but some never appeared in trading records and others came and went. Twenty-two stocks vanished and twenty-seven lost money, but eighty-two of the stocks gained in value, and a few made big gains: Metro Urban was initially offered at one-tenth-of-a-cent per share in 1971 and was sold at three-cents per share in 1974, multiplying an investment thirtyfold. Another stock went from one cent to twenty-five cents a share. An investor who had bought every one of the 138 new Salt Lake City issues would have made a high return. Hunsaker's study showed that in the early 1970s, more money seems to have been made than lost in new penny stocks, at least on paper.

Paper gains, however, could not always be turned into cash. When he was a broker, Carl Teel found a company selling for a few cents a share. “I think it was called Guardian something,” he recalled. The only Guardian asset Teel could find was a duplex in Price, Utah, but the company had a small “float.” That is, few shares were owned by the public, and they traded at a low price. A small float made a stock price easier to manipulate, so Teel thought this stock might become a target for “pump and dump” by a promoter. He bought some and recommended that his customers buy some too. A few days later, senior members of his firm came to him and asked if he had Guardian stock. They were considering a pump and dump. “I knew enough to fib—actually lie—and I said, ‘I’m flat.’ That’s what we said when we were out of a stock.”

The members of Teel's firm, however, said they abandoned their pump-and-dump plan. After he left the penny-stock business, Teel went into another brokerage, and asked a young woman broker the price of his Guardian stock. The bid was fifty cents a share. At that price, Teel's holdings were worth $25,000. As Teel had foreseen, someone had pumped the price of the stock. Teel asked how much he could sell, was told about $1,000 worth, and promptly sold the stock. When he came back five days later to get the check, the price had fallen to twenty-five cents a share. Teel believed his sale had contributed to the falling price. “I hit the bid again,” he said, meaning he sold more of his stock at twenty-five cents, “and I kept hitting it.” Teel kept selling stock and, “they could not sustain the bid”; the price kept falling, but still, “I walked away with a nice chunk of change,” about $5,000. Though Teel had not made much money when he worked as a broker, “I remember thinking I’d pretty much been rewarded for my time in the business,” he said. “That was a lot of money to me in those days.” The story shows a stockholder could not always sell his penny stock at the listed price. Teel understood the business and sold his stock as fast as he could but still finally received only 20 percent of the highest price of the stock, and he was happy to get that. Penny stocks were “thinly traded,” and one big sale might drive the price down. Penny-stock studies, such as Hunsaker’s, used quoted prices and often showed impressive gains. But sometimes it might have been hard to cash out those gains.

While some new penny-stock companies went public through underwriting, others “went public through the back door.” They used a “shell” to get the needed government registration. Shells were old corporations, now defunct. They had no assets and did no business, but under an unusual Utah law, they remained legally alive and registered unless an order from a court killed them. A promoter could buy up the worthless shares and control the company. “It was called a box job,” said Lyle Davis, “because the promoter would have a boxful of old stock certificates sitting in his office.” A company that wanted to sell shares to the public could buy the shell from the promoter, merge the working company with the non-working-but-legally-registered shell, and assume the shell’s legal registration more cheaply and quickly than it could go through the registration process. “The merger business was a good business,” said Davis. Thousands of shells were left over from the uranium boom, and Utah was the chief national source of shells and the leading site of the “shell game.” Buying shells and merging them to get around the registration process was legal, but regulators and New York stockbrokers thought it a questionable
practice. Salt Lake penny-stock brokers held a meeting to agree on rules to keep the shell business honest. They said they did business in shells only because “government agencies had made it too difficult for a new business to incorporate itself and get authorization to sell stock, so it was easier to buy a defunct company that already had this authorization.”

Shells were central to John Worthen’s business. “You could buy control of them, and trade them. These were moribund or dead, and I’d revive them, whatever,” he said. He had learned the penny-stock business from promoters he met and befriended at the Iron Horse, a private club on Salt Lake City’s Main Street. He looked for companies in which one or a few stockholders owned most of the stock. He bought out the major stockholders so he owned most of the stock but didn’t try to get all the stock in the company. “I didn’t care if some other guys owned a few shares. I could roll over them,” Worthen said. Often he would change the company name and devise a story explaining what business it would do and why it would make money. Sometimes he would divide the shares, so there would be more stock to sell. When he put a revived shell on the market, “people lined up at my office to buy,” he claimed. Those buyers were mostly penny-stock veterans, who understood that the stock had no intrinsic value but believed the price would rise. “They were all in it for the ride, like a lottery. There was no real deception,” Worthen stated. And in fact, “the stocks usually doubled in the first few days after they were released,” he said.

Worthen also used fraudulent “wash trades.” For example, a promoter who held a million shares of a company selling for one cent a share might give a colleague money to buy 10,000 shares from him at two cents, then another colleague at a nickel, and a third at ten cents. The promoter was using false fronts to buy stock from himself, so neither money nor stock actually changed hands; it was a “wash.” But the fake sales would be sent to newspapers and the Pink Sheets, and the price of the stock would appear to zoom from one to ten cents. Other investors might then buy the “hot” stock, and the promoter would pump and dump, selling as many shares at the pumped-up price as he could. In addition, Worthen secretly owned part of a brokerage house that would make a market in his stocks, and the brokers there would tout his fast-rising issues to their customers. Worthen also secretly had a share of Financial News Network in Los Angeles, where commentators would speak favorably of his stocks. (He sold out of Financial News Network. “I was taking some heat from the law,” he said, “and we couldn’t let the heat get into the company.”) Worthen made money and so did some of his early inside buyers, but eventually some investors were left with worthless shares in a company that had never been more than a shell, a story, and an inflated price. Legitimate companies sell stock to raise money for a business that makes money by producing goods or services. Worthen’s shells had a story but at best vague intentions to actually do any business. “We always hoped it would be a real deal, but it never was,” Worthen said, grinning ruefully.

Most of Worthen’s shell companies came to market with a story. The New York Times noted penny-stock operators’ “uncanny ability to market the latest investment fads.” When inflation was high in the 1970s, penny-stock companies had gold mines, or in one case, a secret process to refine gold from black sand on Costa Rican beaches. “These days bioengineering, superconductivity, AIDS research and pollution are the buzzwords,” the Times reported in 1990. Strong Point said it would be the first public company to own brothels, including the famous Mustang Ranch in Nevada. Another company claimed to own a string of gay bathhouses.

George I. Norman Jr. was Utah’s most notorious penny-stock promoter in the early 1970s. He conducted business at Thelma’s Café in Holladay, where he plugged a phone into a jack at his reserved booth. He was convicted of swindling a bank and sentenced to two years in prison by a federal judge in Denver in 1973. The judge gave Norman a few hours to get things in order before reporting to the marshals. Norman called an old friend who was a justice on the Colorado Supreme Court, borrowed his car, and escaped in the judge’s car. “It was embarrassing,” said his lawyer, Orrin Hatch, who defended Norman before winning a Senate seat. Norman was at large for twenty-three years.
When finally caught by federal marshals in 1996, he was selling penny stock to members of a Texas country club.51 He told them the company was drilling for oil in Pakistan. *Esquire* magazine called Norman “America’s greatest living criminal genius.”52 Before Norman was convicted, John Worthen went to Thelma’s to try to get in business with him but was unsuccessful. He says he did serve as a front and sold stocks while Norman was on the run. Norman called him, saying “John, I gotta move some paper.” Worthen took stock certificates from Norman, sold the stock as if it were his own, and delivered the money to Norman. When asked if he was paid some of the money, he grinned and said, “Of course, of course, that’s the way it worked.” Worthen, who was himself a federal fugitive for two years, admired Norman’s elusiveness: “He did a good job. He was out twenty-three years.”53

Because shell corporations were used in stock fraud, Utah tried to change its law to kill old shells. In 1971, the Utah Public Service Commission asked for a new law to reduce the number of shells, but the legislature refused to pass it.54 Utah’s attorney general also asked for a change so defunct corporations could be dissolved administratively without going to court, but that bill also failed.55 State Senator Paul Rogers voted against anti-penny stock bills. “We had no venture capital structure, and this was a viable way to go public and raise capital without a lot of front-end expense,” he explained. “Some people used them to deceive investors,” he admitted. “I still have some penny-stock certificates. I was the sucker in those deals.” But he added, “They were used in an affirmative way, too.” Rogers and his colleagues thought that, on balance, the penny-stock industry might help Utah’s economy grow.56 After an antishell bill failed, Attorney General Vern Romney said his office would take three thousand Utah shells to court for dissolution, and he succeeded in driving stakes through the hearts of some long-dead shells. Eventually, the legislature made dissolution easier.57

The bad reputation penny stocks inherited from uranium stocks grew worse in the new penny market. Salt Lake City was “the stock-fraud capital of the West,” said the *Wall Street Journal* in a front-page story early in 1974.58 The story upset Utahns and made them fear their reputation would repel investors and retard the state’s economy. The phrase “stock-fraud capital” stuck and was used of the Salt Lake market for decades. People interviewed for this article forty-five years after the story knew of the *Journal* article and remembered the phrase “stock fraud capital.” In addition, *Business Week, Newsweek, Forbes,* the *New York Times,* and others published stories—usually multiple stories—about fraud in the Salt Lake City penny market.59

Salt Lakers said the *Wall Street Journal* article was unfair, and the penny trade was mostly honest.60 Wilson-Davis brokerage survived through caution and keeping customers out of scams. At Prince-Covey, “We weren’t a bucket shop,” Frank Langheinrich insisted. “I don’t think we ever knowingly did a shell.” If a customer called wanting to buy stock in a shell company, Prince-Covey would fill the order. However, its brokers did not recommend shells, the brokerage would not make a market for them, and Prince-Covey underwrote only companies that had good prospects to found a profitable business. For example, Prince-Covey underwrote Instant Hot Water, formed to produce a device that could quickly make one or two cups of hot water, say for coffee on a camping trip. The stock rose vertiginously, but the device cost about fifty dollars: too much, the company failed. But Langheinrich says the promoter sold stock to raise capital, built a prototype, and contracted with Litton Industries to manufacture the product. “He did what he said he’d do,” Langheinrich says.61 “I think the investor got a fair shot.” Penny-stock advocates point to successful companies they say began with low-priced stocks: Nordstrom, European Health Spa, Jiffy Lube, and many others.62

Although most penny-stock people worked within the law, the wildness of their business sometimes spilled over into their lives. The Prince-Covey offices were situated over a bar called D. B. Cooper’s. “We lived there,” said David Nelson. “We lived at D. B. Cooper’s.” Every day, “we went downstairs after trading closed.” Brokers, traders, secretaries, promoters, investors: all came to D. B. Cooper’s. Langheinrich went to D. B. Cooper’s before he was legally old enough to drink. “They taught me to drink
daiquiris,” he said. In the 1970s cocaine invaded Salt Lake City and also the penny-stock business. “It came in pounds,” David Nelson recalled. “It was a snowstorm, a blizzard.” At D. B. Cooper’s people in the business would greet each other with a grin and the question, “Are you holding?” meaning, do you have cocaine, especially cocaine you might be willing to share? John Worthen regretted drugs more than going to prison. He had a big house in Salt Lake City and a bungalow at Aladdin’s Casino in Las Vegas, where he owned a bar called the Yellow Submarine and was a friend of show folk. Though he drank a lot, Worthen didn’t do drugs himself, but some of his employees did, and they stole from him. “Drugs ruined my business,” he says. Cocaine did not replace alcohol. “You could drink a lot more if you had coke,” Nelson said. “I drank way too much.” Drinking, drugs, and after-work gatherings contributed to his divorce. He quit drinking, and when interviewed, was lean and tan from playing golf. “I’ve been sober twenty-two years,” he said with a touch of pride.

Both state and federal governments responded to criticism that registering new stocks was too complicated and expensive. In 1982 the SEC issued a new rule enabling simpler registration for small corporations. Utah adopted “registration by qualification,” with easier registration for companies selling their original issue of stock only in state. The new rules, together with the death of old shells, led to a shift in the 1980s from shells to newly simplified registration.45 But although the “shell game” subsided, promoters used “blind pools” as a replacement and continued to specialize in evading federal requirements. A blind pool (sometimes called a “blank check”) was a company with no business and no stated plan to do business. Like revived shells, many blind pools were looking to merge and provide registration to an established company that wanted to “go public by the back door.”46 A blind pool could be registered for $3,000 to $4,000 in legal costs, while federal registration of a company already in business might cost one-hundred times as much.47 In 1983, the year after Utah created the simplified registration process, 282 Utah corporations took advantage of the new rules and applied to register by qualification; 211 of them were blind pools. Utah was the national leader in blind pools as it had been the national leader in shells. Colorado, with only seventeen blind pools, had the second most of any state.48 Douglas Martin Shearer studied blind pools formed in 1983 for his master’s thesis. By 1985, 52 percent of the blind pools had found merger partners. Of the eighty-eight blind pools that had not merged, shares of only thirty-eight were still trading, but most of those were trading higher than their issue price. The remaining blind pools had vanished or lost money.49 Shearer’s analysis seemed to show that overall, 1983 blind pools were a good investment, at least on paper.

Many out-of-state companies obtained registration by merging with a Utah blind pool, and so Utah practice affected stocks in other places. For example, a California teenager named Barry Minkow founded ZZZZ Best (pronounced Zee Best), a carpet and drape cleaning company. He obtained registration to sell stock by merging with a Utah blind pool named Morning Star Investments. “It was quick, clean, and easy,” Minkow told the Wall Street Journal.50 The merger took three months: registration would have taken three times as long. ZZZZ Best prospered, and Minkow was hailed as a precocious business success on the Oprah Winfrey Show. But then federal prosecutors charged that he had lied and swindled the public of $60 million. Minkow went to federal prison.51 Officials said Minkow might not have been able to bilk investors if he hadn’t been able to get around regulations by merging with a Utah blind pool.52

In the early 1980s, the SEC investigated again, found penny stocks mostly limited to Denver, Salt Lake City, and Spokane, and concluded they were “minor league” and did not warrant federal action.53 But then a new kind of penny-stock business rose, mostly in New York, New Jersey, and Florida.54 Many of these new brokerages were “bucket shops” that acquired millions of shares of penny stock and employed in some cases thousands of salespeople to make cold calls to long lists of strangers and sell those shares at inflated prices.55 The new bucket shops used new long-distance telephone technology that enabled mass, national telemarketing of cheap stock. Worried by the surge in bucket shops, the SEC asked for new laws and...
more enforcement. The Salt Lake market was mostly local in scope and specialized in “going public by the back door,” with shells and blind pools. Utah led in shells and blind pools, but Utah did not have bucket shops. Utah regulators had more experience with penny stocks than officials in other states, and so they joined in the national concern. John Baldwin, a Utah securities chief, became president of the North American Association of Securities Administrators (NAASA), made up of state regulators. Baldwin led a national survey asking NAASA members about penny stocks in their state. In 1987, NAASA presented a report to a Congressional committee; Baldwin testified and advocated for stricter laws, especially for the regulation of blind pools, which at that time, he believed, were Utah’s chief problem. The NAASA survey estimated that $2 billion a year was lost to penny-stock fraud nationwide.

National publicity induced the FBI to strike. Three undercover agents opened an office in Midvale, Utah, in 1988, and spent a year pretending to be penny-stock promoters. It was an elaborate sting, a “fully back-stopped, group-one, undercover operation,” according to prosecutor Stewart Walz, who spent much of his forty years with the US Justice Department fighting Utah fraud. FBI agents, posing as promoters, paid the Salt Laker Jerry Timothy $20,000 for an old Delaware shell, decorated with phony stockholder names found in the Latter-day Saint Genealogical Library. “It was a classic box job,” said Walz. They paid an accountant $10,000 for a company balance sheet that included $987,000 in nonexistent assets. For a fee, a lawyer issued the required legal opinion that the stock, named “Protecto,” was legally tradeable. Brokers in Denver were paid to make a market and to manipulate the share price. Agents secretly videotaped the brokers discussing how false accounts would use wash trades to manipulate the price of Protecto to two dollars a share. When all was in place, the agents arrested their coconspirators. Prosecutors charged twelve individuals, and eleven of them either pleaded guilty or were convicted. The Protecto case raised Salt Lake enforcement energy. Federal prosecutors, the SEC, FBI, IRS, state security regulators, and a few local prosecutors formed a stock-fraud task force that met regularly for seven years, and the US Attorney’s office for Utah convicted thirty-five Utah swindlers during Waltz’s tenure, an unusually large number for a small office.

Governments tightened their rules. Congress passed the Penny Stock Act of 1990, and the SEC made new regulations, mostly against cold calls from bucket shops, the national problem that had induced the federal government to act. Utah acted on its own penny-stock problem and toughened the rules on blind pools. Governor Scott Matheson had assembled the Utah Securities Fraud Task Force in 1984, vowing to “meet the securities fraud problem head on and come out on top.” Matheson left office before he could act on the commission’s report, but as a private attorney, he lobbied for NAASA and met with his successor, Governor Norman Bangerter. State securities director John Baldwin attended the meeting. Baldwin recalled that Matheson told Bangerter, “You have to do something about the state’s reputation for stock fraud.” Matheson said Utah was seen as “the stock fraud capital of the country,” a reputation
that deterred legitimate investment.83 Ban
gerter agreed, and securities director Baldwin
promulgated a new rule in 1986 that required a
blind pool to put 80 percent of the money from
stock sales in escrow until it announced a busi
ness plan. Then stockholders could demand
demand their money back if they didn’t like the plan.84
That rule helped kill Utah blind pools: in 1983,
before the rule, Utah had 211 blind-pool stock
offerings. In 1986, when the rule took effect,
time, there were 119. And in 1987, after the rule, there
were only seventeen.85

The SEC, armed with the Penny Stock Act of
1990 and other new laws, tightened federal
rules to suppress penny stocks. In 2019, Lyle
Davis noted changes. Wilson-Davis brokers
now cannot offer to sell penny stocks to cu
tomers nor can they give advice on any stock
priced under five dollars. A broker may fill a
customer’s penny-stock order but only after
she has signed a form attesting that she ar
rived at her decision with no advice from the
broker. Stock-trading has also changed. The
Penny Stock Act required electronic listing of
stock prices, and trading is now done by com
puter. Traders can no longer sell short or hope
for a large spread. “It’s hard to make money as a
broker anymore,” said broker Byron Barkley. In
another change, most stock ownership is now
recorded electronically, and paper stock certif
icates have become rare. In the shell days, an
owner could sell her stock certificate. But now a
broker may not buy a paper penny-stock certif
icate without an attached legal opinion saying the stock, the certificate, and the seller all meet
SEC regulations. Such an opinion usually costs
from $800 to $1,500, Lyle Davis said.86 Federal
and state rules, in other words, strangled Salt
Lake penny stocks. In 1984, 324 companies
registered by qualification as specifically Utah
corporations (most of them blind pools). Since
2004, there have been at most three such reg
istrations in any year, and most years have only
one or none at all.87

Even so, penny-stock fraud remains “a plague
on our country,” Daniel J. Wadley, the regional
director of the SEC’s Salt Lake City office, said
in 2020. The SEC moves against bucket shops,
“but it’s like whack-a-mole.” Bucket shops pop
up with a new name and location soon after
they are closed.88 Purveyors of penny stocks
also prowl the internet. Sites offer advice and
stock sales to potential investors.89 But Salt
Lake City penny stocks are dead, brokerages
closed, shells and blind pools vanished, and
Utah fraudsters have found new scams.

Financial markets offer temptations to fraud
and sharp practice, and so seem to require close
government supervision. But when uranium
boomed in the 1950s, both state and federal
regulation proved ineffective. Dishonest pro
moters were neither forestalled nor punished,
and in the collapse, Utah acquired a reputation
for penny-stock fraud. Penny stocks revived
in the 1960s, led by young entrepreneurs who
opened new brokerage houses but relied on a
mining-stock “infrastructure” of veterans who
knew the business from the uranium boom and
hoped for profit in its return. After the 1960s
revival, Utah penny stocks were a miscellany.
Many raised capital for legitimate business
es. Some financed successful companies that
provided products, services, and jobs. Most
new Utah issues, however, were shells or blind
pools that were not intended to begin new
businesses but rather to merge with an existing
business that wanted to sell stock. The merg
er provided cheap registration legally, but in a
way that avoided regulatory scrutiny. Because
shells evaded oversight, they could be used by
promoters such as George Norman or John
Worthen to offer a company that told a false
story, such as drilling for oil in Pakistan, to sell
worthless stock. Such promoters sometimes
used wash trades or other tricks to pump the
price of the stock and then dump their shares,
thus defrauding investors. Some penny stocks
were unclear cases. Promoters didn’t lie and
avoided lawsuits or prosecution, but stock
prices depended on rumors or exaggerations;
promoters and many who bought the stock
hoped to profit from a speculative rise in the
price of the stock, while long-term plans to
found a business were secondary or consigned
to an indefinite future. So long as penny stocks
flourished only in the old mining-exchange
towns of Salt Lake City, Denver, and Spokane,
federal regulators largely left them alone. But
then in the 1980s, a new kind of penny-stock
business arose mostly in New York, New Jer
sey, and Florida, that telemarketed penny stock
on newly available, long-distance telephone
services. State and federal governments acted
against the new bucket shops and against Salt Lake penny stocks while they were at it. Their actions shut down the Salt Lake penny market, the honest along with the dishonest.

Utah has a long reputation for scams. Penny stocks, which generated huge, negative, national press, were the single biggest contributor to that bad name. Although Utah penny stocks are dead, Utah notoriety survives. Fraud blogs say Utah has more than its share of Ponzi schemes and other swindles. Most discussions of Utah fraud mention “affinity fraud,” meaning that Latter-day Saint fraudsters use church contacts and the mutual trust within that church to prey on their coreligionists. But penny stocks rose from Utah mining history, which was dominated by people outside the LDS faith. The penny-stock business imitated impersonal national markets, and did not depend on trust between Latter-day Saints. Penny-stock fraud was a separate and different contributor to Utah’s reputation. When former participants were asked about penny stocks, they smiled. Stock-people’s memories differ from media and official judgments. Participants remember the thrill of risk, the hopes of riches, the pleasures of flouting authority, and wild, high living. “It was a good time,” said John Worthen. In offices and bars stock-holders compared their luck, debated stocks and strategies, boasted of gains, and bemoaned losses. Even regulators saw the lure. “Frankly, a lot of people had a lot of fun,” said the former state securities chief John Baldwin. “It was closer than Wendover.” Almost everyone knew penny stocks were risky and harbored fraud, but that only upped the excitement. David Nelson recalled penny stocks and youthful exuberance: “It was funner than hell,” he said.

Notes

2. John E. Worthen, interview by Rod Decker, October 31, 2019; all interview notes are in possession of the author.
5. Salt Lake Daily Tribune, August 6, 13, 16, and 17, 1873.
7. “Salt Lake Stock Market,” Salt Lake Mining Review, April 15, 1899, 11, said the exchange had been in existence for three years.
8. Salt Lake Herald, December 29, 1899, 12.
24. Raye C. Ringholz, Uranium Frenzy: Boom and Bust on the Colorado Plateau (New York: W. W. Norton, 1989), has a chapter, 207–222, on veterans of uranium stock who were active in the early penny-stock market.
32. Frank Langheinrich, interview by Rod Decker, November 14, 2019.
34. Cutler, “Salt Lake Stock Exchange.”
38. Ringholz, Uranium Frenzy, interviewed members of the early infrastructure, 207–222.
40. Lyle Davis, interview by Rod Decker, December 3, 2019. Davis was secretary-treasurer of Wilson, Davis and Company.
41. Byron Barkley, interview by Rod Decker, December 3, 2019. Barkley was a broker.
43. Teel, interview.
44. Davis, interview.
45. Ringholz, Uranium Frenzy, 216.
47. J. R. Porter, “The ‘Hot Issues’ Market of 1980,” Journal of Business 57, no. 2, 215–40, studied penny stock issues in Denver and found that many rose quickly soon after they were issued, which supports Worthen’s claim.
53. Worthen, interview.
56. Paul Rogers, telephone interview by Rod Decker, December 18, 2019. Rogers, Utah County Republican, is a former state representative and senator.
61. Langheinrich, interview.
65. Shearer, “Blind Pool Public Offerings,” 44; estimate by Lyle Davis; see also, Orlanski, “Going Public through the Back Door,” 1452–53.
68. Leefeldt, “Blank-check Offerings Lure Investors.”
75. John Baldwin, interview by Rod Decker, November 25, 2019. Baldwin was director of the Utah Division of Securities from 1985 to 1990.
77. Stewart Walz, interview by Rod Decker, December 9, 2019. Walz was an Assistant United States Attorney for Utah from 1980 to 2018, generally prosecuting fraud.

78. “NASAA Report,” 204.


80. Walz, interview.


82. Speech prepared for task force luncheon, reel 64, Governor Matheson Correspondence, 1976–1984, Series 4468, USARS.

83. Baldwin, interview.


86. Davis, interview.


91. Wadley says Utah currently has more “offering fraud” than other places, and the offering fraud is related to “trust within the LDS community,” but not more fraud in other categories. Wadley, interview.