

# The State of New Hampshire

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## Department of State Bureau of Securities Regulation

**FOR IMMEDIATE RELEASE**

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### **SECURITIES EXCHANGE COMMISSION AND NH SECURITIES REGULATORS ANNOUNCE SETTLEMENT WITH PENNICHUCK CORPORATION**

**Concord, NH (December 16, 2004)** - The New Hampshire Bureau of Securities Regulation and the U.S. Securities and Exchange Commission held a press conference today in Concord to announce details of a securities settlement with Pennichuck Corporation and former company CEO, Maurice Arel. SEC District Administrator Walter Ricciardi and Senior Council Sandra Bailey joined NH Securities Director Mark Connolly and Deputy Director Jeffrey Spill to announce results of their collaborative effort. "I'm pleased to bring this case to a conclusion, and appreciate Mr. Ricciardi and Ms. Bailey taking the time to be in New Hampshire today to discuss this settlement," said Connolly. "We have worked closely with the SEC on this important case and it's an excellent example of State and Federal regulators working together to provide the best possible result for investors and shareholders."

As a result of the agreement, Pennichuck and Arel agree to pay an administrative fine in the amount of \$50,000 to the State of New Hampshire, along with a \$60,000 fee to the State to cover the costs of the investigation. In addition, the company agrees to distribute a specially declared payment to Pennichuck stockholders in the amount of \$280,000. Connolly indicated he was particularly pleased with the \$280,000 stockholder

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reimbursement component of the settlement, as it is a novel approach by regulators to pass settlement monies directly into the pockets of shareholders.

As a result of the SEC's agreement, Arel is also prohibited from serving as an officer or director of any publicly traded company.

The case against Pennichuck and Arel centered on the company's efforts over the years to develop land in the company's watershed. During this time, CEO Arel negotiated the terms of 10 partnership agreements with a local developer under the name Southwood Corporation for the purpose of developing hundreds of house lots and constructing accompanying homes. The Developer, John Stabile, was Pennichuck's partner in all ten joint ventures and Pennichuck never disclosed to investors its ongoing relationship with the Developer. Instead it referred to him as a "local developer," "local builder," or "major regional builder." Stabile was never referred to by name.

"The Pennichuck board of directors had a duty to implement controls, policies and audit procedures to avoid the abuse of corporate assets and other improprieties," said Mark Connolly. "The Pennichuck board of directors failed to adequately do so. As a result of this oversight, Southwood land was sold as a one-half interest to the Developer without formal appraisal of the land value."

In a related issue, CEO Arel's son, Matthew Arel, controlled a company (MGM Plus Grounds Maintenance, Inc.) which from 1996-2002 received 1.2 million dollars worth of ground maintenance contracts from Southwood and the Stabile Companies. The transactions with the Southwood Joint Ventures should have been disclosed to investors as material transactions, and Arel and Pennichuck failed to do so. The NH Bureau made inquiry with Pennichuck and Arel about this relationship and they asserted that the relationship was "from time to time" and that Matthew Arel acted only as an employee of MGM. In fact, Mathew Arel was directing MGM, and responsible for obtaining all of the

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contracts with Southwood. In 1999 alone, MGM received over \$258,000 in business from the Southwood Joint Ventures.

In addition, in 1998, the Stabile Company and Arel entered into an agreement in which Stabile agreed to build a custom home for Arel on land owned by one of the Southwood developments. The public disclosure required to be made by Pennichuck appeared as follows in its 1998 annual report to share Shareholders.

“During 1998, one of the residential joint venture partnerships sold land and a home to an executive officer of the company. The terms of that sale were the same as the terms which would be given to any independent third party purchaser.”

This public disclosure statement was material, false and misleading in a number of respects. The home purchase was not made on the same terms as available to a third party purchaser. In fact, the home was built for Arel by the Developer at cost, minus a \$10,000 discount. In addition, Arel did not pay a 6% real estate fee and a lot premium of approximately \$12,000 for one of the largest lots in the subdivision. As a result, Arel received an estimated \$70,000 benefit relative to what would be paid by an independent third party purchaser.

Connolly said the \$110,000 to be paid to the State of New Hampshire and the \$280,000 reimbursement to Pennichuck stockholders will be shared by the Pennichuck Corporation and Arel.

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