



STATE OF CONNECTICUT
DEPARTMENT OF BANKING

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Commissioner

SECURITIES AND BUSINESS INVESTMENTS DIVISION

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A WORD FROM THE BANKING COMMISSIONER

Since 1989, according to the state Department of Labor, Connecticut has lost approximately 160,000 jobs. As part of a major effort to revitalize the economy now that a balanced budget is in place, Governor Lowell P. Weicker, Jr. has turned to building a pro-business, pro-jobs environment in the state. Recently, a national advertising campaign, called "The New Connecticut, was launched; the theme of the campaign emphasized jobs as a first order of business.

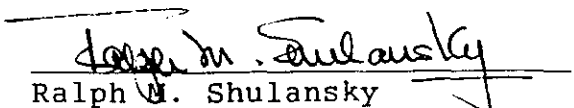
The Department of Banking's activities in securities regulation play an important role in the administration's push for economic growth. The Securities and Business Investments Division is committed to facilitating the capital formation process in Connecticut while simultaneously protecting the investing public.

With adequate capital, businesses can expand their operations, build inventory and employ more citizens. Securities offerings provide one means for businesses to raise capital. By requiring that potential investors receive full disclosure, state securities regulation encourages investors to choose wisely among investment options, thus helping to ensure that capital is channelled for productive purposes rather than being lost on fraudulent ventures that only benefit unscrupulous promoters.

Practical, informative educational programs also complement Connecticut's securities regulation effort. This October, Securities Forum '92, organized in conjunction with the Securities Advisory Committee to the Banking Commissioner, will specifically focus on capital formation. Financial professionals and business executives will have the opportunity to frankly discuss regulatory developments, including the Small Corporate Offering Registration form (SCOR), with agency staff. Capital formation will also be addressed from the perspective of banks, venture capital firms, manufacturing concerns and the state Department of Economic Development.

Included in the handouts that all Securities Forum registrants will receive is a copy of the agency's booklet "Raising Capital Through Securities Offerings." The booklet was published earlier this year as a guide for small businesses wishing to learn more about Connecticut's securities laws. Copies of the booklet may also be obtained at no cost from the department.

We at the Department of Banking are pleased to do our part in creating a "New Connecticut" whose goal is to save and create jobs. Together with our fellow agencies, we hope to do whatever it takes to make state government work more effectively for you.


Ralph W. Shulansky
Banking Commissioner

**TECHNICAL AMENDMENTS MADE TO CONNECTICUT TENDER
OFFER ACT AND CONNECTICUT UNIFORM SECURITIES ACT**

Various technical changes were made to Chapters 661a and 662 of the Connecticut General Statutes by Public Act 92-12, An Act Making Technical Revisions to Title 36 and Certain Related Provisions of the General Statutes. The Public Act carries an October 1, 1992 effective date.

Section 92 of P.A. 92-12 amended the definitions in Section 36-457 of The Connecticut Tender Offer Act by 1) substituting the words "as used in" for "for purposes of" in the prefatory language, and 2) adopting a numerical rather than an alphabetical format in designating definitional subsections. Section 93 of P.A. 92-12 amended Section 36-462 of the tender offer law by replacing an alphabetical subsection designation with a numerical one. Section 94 of P.A. 92-12 made similar changes to the definitional provisions in Section 36-471 of The Connecticut Uniform Securities Act. In addition, Section 95 of P.A. 92-12 substituted an alphabetical subparagraph designation for a numerical one in Section 36-473 of The Connecticut Uniform Securities Act which concerns investment advisers.

NEW SECURITIES BULLETIN MAILING PROCEDURE ANNOUNCED

In the past, issues of the Securities Bulletin have been mailed to both main offices and all Connecticut branch offices of registered broker-dealers and investment advisers. In some instances, this has led to duplicate mailings. Starting with this issue of the Bulletin, the agency will limit its mailing of the Bulletin to broker-dealer and investment adviser main offices. **Branch office mailings of the Securities Bulletin will be made only upon request.** Broker-dealers or investment advisers wishing to receive copies of the Bulletin at their branch offices are advised to contact Louise Hanson, Subscription Coordinator, in writing, providing the specific branch office and contact person to whom the Bulletin should be directed.

This announcement does not affect non-broker-dealer and investment adviser readers of the Bulletin.

ERRATA

The last issue of the Securities Bulletin described various fee increases under Public Act 92-89, An Act Concerning the Assessments and Fees of the Department of Banking and Registration Renewal Fees for Optometrists, which became effective on May 22, 1992. Due to a printing error, however, the new registration fee for tender offers was mistakenly reported as \$400. Section 8 of Public Act 92-89 increased the tender offer registration fee from \$250 to \$500. We apologize for any inconvenience.

APPEAL CHALLENGING AGENCY BANK SUBPOENAS
DISMISSED ON RES JUDICATA GROUNDS

Procedural History

In the consolidated cases of Morgan v. Brown and Legassey v. Brown, 219 Conn. 204, 592 A.2d 925 (1991), the Connecticut Supreme Court had reviewed a Superior Court judgment quashing four subpoenas for bank records issued by the Banking Commissioner under Sections 36-91(a) and 36-495 of the Connecticut General Statutes. The subpoenas had been issued in conjunction with an investigation by the Securities and Business Investments Division under The Connecticut Uniform Securities Act into the sale of units in four real estate limited partnerships. The Commissioner's authority to undertake the investigation or to issue the subpoenas under Section 36-495 of the Connecticut Uniform Securities Act was not in issue.

On June 18, 1991, the Supreme Court had concluded that Section 36-91(b) of the Connecticut General Statutes did not confer standing on bank customers to contest the procedures by which service of process was made on their banks. Section 36-91 provides that:

(a) Except as provided in section 36-9m, a financial institution shall disclose financial records pursuant to a lawful subpoena ... served upon it if the party seeking the records causes such subpoena ... or a certified copy thereof to be served upon the customer whose records are being sought, at least ten days prior to the date on which the records are to be disclosed, provided a court of competent jurisdiction, for good cause, may waive service of such subpoena ... or certified copy thereof, upon such customer. ... (b) A customer of a financial institution shall have standing to challenge a subpoena of his financial records, by filing an application or motion to quash in a court of competent jurisdiction within the ten-day notice period required by subsection (a) of this section. Upon the filing of such application or motion by the customer, and service of such application or motion upon the financial institution and the person issuing the subpoena, production of the records shall be stayed, without liability to the financial institution, until the court holds a hearing on the motion or application and an order is entered sustaining, modifying or quashing the subpoena. ...

The court had noted that Section 36-91 provided the customer with an opportunity to contest the "substantive propriety of the disclosure of his records ... [for example,] that there is no authority for the issuance of the subpoena; or that the customer's financial records are immaterial to the investigation ...". The court had added that "[n]othing in the text of § 36-91(b) or in its legislative history suggests, however, that the legislature intended

also to confer standing on a bank customer to challenge procedural irregularities in the manner in which an administrative subpoena has been served on the financial institution in which he has his account." Id. at 211.

Following the Supreme Court ruling, the trial court dismissed the petitioners' applications to quash. On July 19, 1991, each petitioner filed a second application to quash the subpoenas. These were dismissed as untimely in November, 1991 and the petitioners appealed.

Ruling

In Legassey v. Shulansky, 28 Conn. App. 653 (1992), the court concluded that the trial court's judgment in the first action and the decision of the Supreme Court had constituted a judgment on the merits and therefore, the second applications to quash were barred by res judicata. The court also rejected petitioners' claim that their second applications to quash were permitted because of accidental failure of suit. The court noted that § 52-592(a), upon which the petitioners had relied in advancing this argument, was not intended as a device for avoiding the doctrine of res judicata.

Accordingly, the court ordered that the trial court set a date for the production of the subpoenaed documents.

LOWER COURT RULES THAT SECTION 36-472 DOES NOT CONFER PRIVATE RIGHT OF ACTION

Absent controlling precedent from the Connecticut Supreme Court, a private right of action under the antifraud provisions in Section 36-472 of The Connecticut Uniform Securities Act cannot be implied. So held the court in Chrysler Capital Corporation et al. v. Century Power Company, Blue Sky L. Rep. (CCH) ¶ 73,632 (S.D.N.Y. 6/24/92). The court noted that "§36-472 combines not only elements of §10(b) but also elements of § 17(a) of the Securities Act of 1933 ... and no private right of action exists under § 17(a) [citation omitted]. Thus, analogous provisions of federal law do not show that a private right of action should be implied under §36-472." Id. at p. 75,807.

The plaintiffs had observed that The Connecticut Uniform Securities Act was patterned after the Uniform Securities Act and that Section 410(h) of the Uniform Act (the provision parallel to C.G.S. §36-498) contained specific language indicating that the Uniform Act did not create any cause of action not specified in Section 410. Since such language was not present in Section 36-498, the plaintiffs argued that a cause of action under Section 36-472 could be implied. The court concluded that "[w]hile such deletions suggest that the Connecticut legislature intended to permit implied rights of action under the statute, they are not conclusive proof of that intent." Id. at p. 75,808. The plaintiffs' claim was therefore dismissed.

ENFORCEMENT HIGHLIGHTS

ADMINISTRATIVE SANCTIONS

CEASE AND DESIST ORDERS

Michael T. McElduff, Jr.

On August 17, 1992, following a Securities and Business Investments Division investigation, the Banking Commissioner issued a cease and desist order against Michael T. McElduff, Jr., president and director of More Associates, Inc., a Connecticut corporation based in Coventry, Connecticut. The Order alleged that More Associates, Inc. was a financial planning firm providing securities and insurance products and services; that from approximately November 1990 to August 1991, McElduff, as president of More Associates, Inc., represented to at least nine Connecticut persons that he would effect purchases of securities issued by various investment companies and limited partnerships; that McElduff failed to forward approximately \$158,000 of investor funds to any securities issuer or to his employing broker-dealers; and that McElduff misappropriated investor funds by failing to return any portion thereof to investors. The Order further alleged that such conduct violated the antifraud prohibition in Section 36-472 of The Connecticut Uniform Securities Act. Since McElduff did not request a hearing within the prescribed time period, the Order became permanent on September 30, 1992.

Lincoln-Madison Consolidated Corporation f/k/a Cambridge-Newport Consolidated Corporation

On September 8, 1992, following a Securities and Business Investments Division investigation, the Banking Commissioner issued a cease and desist order against Lincoln-Madison Consolidated Corporation f/k/a Cambridge-Newport Consolidated Corporation, of 530 Silas Deane Highway, Wethersfield, Connecticut. The Order alleged that from at least June 1987 through June 1991, the corporation violated Section 36-485 of The Connecticut Uniform Securities Act by offering and selling unregistered non-exempt notes to Connecticut persons. In addition, the Order contained allegations that from at least January 1988 to January 1991, the corporation issued, offered and sold unregistered non-exempt investment contracts characterized as "U.S. rare coin investment program[s]" in

Connecticut. The Order further alleged that the corporation violated the antifraud prohibition in Section 36-472 of the Act by failing to disclose that 1) the notes and the rare coin investment programs were not registered under the Act and 2) insofar as the rare coin investment programs were concerned, that the corporation and/or its representatives would retain and receive substantial commissions. The Order also alleged that by failing to disclose the nature and extent of the commissions involved in the rare coin investment programs, the respondent misrepresented the programs' true value. The respondent was provided with an opportunity to request a hearing on the allegations in the Order.

CONSENT ORDERS

Mark Stephen Buciak

On July 22, 1992, the Banking Commissioner entered a Consent Order with respect to Mark Stephen Buciak. The Consent Order followed a December 23, 1991 Notice of Intent to Deny Buciak's application to become registered as a broker-dealer agent of G.R. Phelps & Co., Inc. The Notice of Intent to Deny registration had alleged that in 1987 and 1988, while employed as an agent of PaineWebber Incorporated, Buciak wilfully made unsuitable recommendations to one or more Connecticut customers; and that, in making such recommendations, Buciak wilfully violated the antifraud provisions in Section 36-472 of the Connecticut Uniform Securities Act and engaged in dishonest or unethical practices in the securities business.

The Consent Order provided that the department's Securities and Business Investments Division would not approve Buciak's pending registration as an agent of G.R. Phelps & Co., Inc. until September 17, 1992, and that such approval would be conditioned on Buciak passing the Series 63 examination administered by the National Association of Securities Dealers. In addition, the Consent Order provided that once Mr. Buciak's application was approved, Buciak would be placed on administrative probation until September 17, 1994.

Pursuant to the Consent Order, while Mr. Buciak was on administrative probation, he would refrain from 1) representing a broker-dealer or issuer in effecting or attempting to effect purchases or sales of limited partnership issued securities, options and "designated securities" within the meaning of Securities and Exchange Commission Rule 15c2-6; 2) directly or

indirectly receiving any commission or other remuneration associated with transactions in limited partnership issued securities, options and "designated securities"; 3) acting as a principal or in a supervisory capacity at any Connecticut location of a broker-dealer where he might be employed; and 4) acting as a principal or in a supervisory capacity with respect to any Connecticut domiciled account, regardless of the location of his employment. In addition, the Consent Order provided that, during his administrative probation, Mr. Buciak would be subject to direct, on-site supervision by an individual had passed the NASD principal's examination and who was approved by the Commissioner. Mr. Buciak could, however, conduct securities-related business away from the location where he was employed if any transactions resulting therefrom were approved by his supervisor before the end of the next business day following his off-site activity.

During Mr. Buciak's administrative probation, the Consent Order also required that both he and his employing broker-dealer file with the Division on a quarterly basis reports of all written and oral customer complaints relating to Mr. Buciak's securities activities. Finally, the Consent Order required that Buciak reimburse the agency \$1,000 for the Division's investigative costs.

Andrew B. Hendryx III a/k/a Drew Hendryx

On August 19, 1992, the Banking Commissioner entered a Consent Order with respect to Andrew B. Hendryx III a/k/a Drew Hendryx. A Securities and Business Investments Division investigation had revealed indications that from approximately September 1989 to March 1991, Mr. Hendryx alone and/or through one or more intermediaries, including one Richard Elia, offered and/or sold unregistered securities of six different corporate issuers in Connecticut in apparent violation of Section 36-485 of The Connecticut Uniform Securities Act. The Division also uncovered alleged disclosure deficiencies in the offerings which purportedly gave rise to violations of the antifraud provisions in Section 36-472 of the Act.

The Consent Order permanently barred Mr. Hendryx from transacting business as a broker-dealer agent, agent of issuer, broker-dealer, investment adviser and investment adviser agent in the state. In addition, the Consent Order prohibited Mr. Hendryx from acting as a finder for compensation, splitting commissions or receiving referral fees in conjunction with the offer, sale or purchase of securities or the rendering of investment advice on securities. The Consent Order also

prohibited Mr. Hendryx from acting in a proprietary or supervisory capacity with respect to any broker-dealer or investment adviser transacting business in Connecticut. In addition, the Consent Order required that, for five years, Mr. Hendryx notify the Division in writing of any oral or written securities complaints relating to him or to any entity in which he had a controlling interest.

Notwithstanding the foregoing restrictions, the Consent Order allowed Mr. Hendryx to apply for registration after five years as a broker-dealer, investment adviser, agent of issuer or, in a non-supervisory and non-proprietary capacity, as an agent of a broker-dealer or investment adviser. Approval of such application would be within the agency's discretion. The furnishing of a sworn affidavit by Mr. Hendryx concerning his compliance with the Consent Order would be but one of the factors the agency would consider in deciding whether to grant registration. Were Mr. Hendryx to apply for registration in a non-supervisory capacity, the Consent Order required that he deliver to the Division a written statement from his employing broker-dealer or investment adviser confirming that 1) he would be subject to supervisory controls; 2) the office from where he would work would be either a registered branch office or the main office of the broker-dealer or investment adviser; and 3) that the broker-dealer or investment adviser had received a copy of the Consent Order. The Consent Order specifically allowed the agency to prescribe additional testing and qualification requirements were Mr. Hendryx to apply for registration in a supervisory or proprietary capacity. In addition, Mr. Hendryx was further prohibited from representing more than one broker-dealer, investment adviser or securities issuer at any one time.

STIPULATION AND AGREEMENTS

Financial Planners International Corporation

On July 1, 1992, the Banking Commissioner entered into a Stipulation and Agreement with Financial Planners International Corporation of 11 Lake Avenue Extension, Danbury, Connecticut. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which uncovered evidence that during October, 1991, the corporation transacted business as an investment adviser while unregistered in alleged violation of

Section 36-474(c) of The Connecticut Uniform Securities Act. In furtherance of its desire to informally resolve the matter, the firm refunded the advisory fees of each client to whom it had rendered investment advice during the period of unregistered activity.

Pursuant to the Stipulation and Agreement, the corporation agreed to 1) receive a letter of caution from the agency; 2) review its supervisory and compliance procedures to detect and prevent regulatory violations; and 3) for a period of eighteen months from the Commissioner's execution of the Stipulation and Agreement, forward all complaints received, including an indication as to their disposition, to the Division on a quarterly basis.

First Union Brokerage Services, Inc.

On July 6, 1992, the Banking Commissioner entered into a Stipulation and Agreement with First Union Brokerage Services, Inc. of 301 South College Street, 17th Floor, Charlotte, North Carolina. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that the firm transacted business as a broker-dealer while unregistered and employed unregistered agents, all in alleged violation of Section 36-474 of The Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) review and modify its supervisory and compliance procedures to prevent and detect regulatory violations; 2) pay \$2,250 to the agency as a civil penalty and to reimburse the Division for the Division's investigative costs; and 3) pay to the department \$500 representing back uncollected registration fees during the period of unregistered activity.

Financial Asset Management, Inc.

On July 10, 1992, the Banking Commissioner entered into a Stipulation and Agreement with Financial Asset Management, Inc. of 88 East Broad Street, Suite 1650, Columbus Ohio. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which uncovered indications that the firm transacted business as a broker-dealer while unregistered and employed an unregistered agent, all in alleged violation of Section 36-474 of The Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1)

review and modify its supervisory procedures to prevent and detect future regulatory violations; and 2) pay \$750 to the agency, \$500 of which constituted a fine and \$250 of which represented reimbursement for Division investigative costs.

PaineWebber Managed Municipal Trust and PaineWebber Incorporated

On July 13, 1992, the Banking Commissioner entered into a Stipulation and Agreement with PaineWebber Managed Municipal Trust (the "Trust") and with PaineWebber Incorporated (the "Distributor"), both of 1285 Avenue of the Americas, New York, New York. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that from approximately 1988 to 1991, the Trust, through the Distributor, offered and sold unregistered non-exempt shares of PaineWebber RMA California Municipal Money Fund (the "Fund"), a series of the Trust, to Connecticut residents at a time when no registration was in effect. Such transactions allegedly violated Section 36-485 of The Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the Trust and the Distributor agreed to refrain from further regulatory violations. The Trust and the Distributor also agreed to implement a revised system of procedures designed to ensure compliance with blue sky registration requirements. Finally, the Distributor agreed to remit \$5,000 to the agency representing an administrative fine and reimbursement for Division investigative costs.

FSC Securities Corporation

On July 22, 1992, the Banking Commissioner entered into a Stipulation and Agreement with FSC Securities Corporation of 2300 Windy Ridge Parkway, Suite 1100, Marietta, Georgia. The Stipulation and Agreement followed a Securities and Business Investments Division investigation into the activities of the firm and its agents, including one Anthony R. Raucci, Jr. The Division's investigation had uncovered indications that from approximately 1985 to 1989, while acting as an agent of the firm and under the firm's supervision and control, Raucci 1) misappropriated approximately \$30,418 remitted to him by investors for deferred compensation purposes; 2) raised approximately \$172,500 by offering and selling unregistered notes and investment agreements in Connecticut in violation of Section 36-485 of The Connecticut Uniform Securities Act; and 3) violated Section 36-472 of the Act by, among other things, failing to provide purchasers of such notes and investment

agreements with full disclosure of all material facts surrounding their investment. Such conduct, if proven, would have constituted a basis for the suspension or revocation of the firm's broker-dealer registration in Connecticut pursuant to Sections 36-484(a)(2)(K) and 36-484(a)(2)(H) of the Act and Section 36-500-15(a)(2)(H)(i)(mmm) of the Regulations thereunder.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) implement revised supervisory and compliance procedures to prevent and detect regulatory violations; 2) for a two year period, conduct compliance audits of each Connecticut branch office every six months and file with the agency a copy of the written report for each audit no later than thirty days following completion of the audit; 3) for a two year period, notify the agency in writing within forty eight hours following the firm's receipt of any written complaints from Connecticut residents concerning securities and to provide copies of those written complaints with the written notice; and 4) remit a \$5,000 civil penalty to the agency.

Russo Securities, Inc.

On August 6, 1992, the Banking Commissioner entered into a Stipulation and Agreement with Russo Securities, Inc. of 128 Sand Lane, Staten Island, New York. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which uncovered indications that from approximately 1988 to 1992, the firm had transacted business as a broker-dealer in Connecticut absent registration and had employed unregistered agents, all in alleged contravention of Section 36-474 of The Connecticut Uniform Securities Act. In furtherance of its desire to informally resolve the matter, the firm submitted applications for broker-dealer and agent registration to the Division and represented to the Division that it had reviewed and modified its supervisory and compliance procedures to prevent and detect regulatory violations.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) maintain and implement supervisory and compliance procedures designed to prevent and detect regulatory violations; 2) remit to the Division \$2,500 representing a civil penalty, back registration fees for the period from 1988 to 1992 and Division investigative costs; and 3) for one year following the Commissioner's execution of the Stipulation and Agreement, a) notify the Division in writing of any oral or written securities-related complaints received by the firm from Connecticut residents; b) provide the Division Director with written notice of any such complaints no later than forty eight

hours following receipt of the same by the firm; and c) file a written report with the Division every three months indicating whether any such complaints had been received by the firm during the respective quarter and providing the status thereof.

. **Brown, Lisle/Cummings, Inc.**

On August 14, 1992, the Banking Commissioner entered into a Stipulation and Agreement with Brown, Lisle/Cummings, Inc. of 1200 Turks Head Building, Providence, Rhode Island. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that the firm had employed unregistered agents in purported violation of Section 36-474(b) of The Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) review and modify its supervisory procedures to prevent and detect future regulatory violations; 2) pay a \$3,000 civil penalty to the agency; and 3) reimburse the department no more than \$750 for the cost of an examination to be conducted by the Division within eighteen months following the Commissioner's execution of the Stipulation and Agreement.

. **Howe & Rusling, Inc.**

On August 19, 1992, the Banking Commissioner entered into a Stipulation and Agreement with Howe & Rusling, Inc. of 120 East Avenue, Rochester, New York. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which uncovered evidence that, between 1974 and 1992, the firm had transacted business in Connecticut as an investment adviser absent registration in purported violation of Section 36-474(c) of The Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) review its supervisory and compliance procedures to prevent and detect regulatory violations; 2) pay a \$2,000 civil penalty to the agency; and 3) reimburse the department \$550 for back registration fees.

. **Financial Planning Resource, Incorporated and Mark Steven Germain**

On August 28, 1992, the Banking Commissioner entered into a Stipulation and Agreement with Financial Planning Resource, Incorporated of 545 Long Wharf Drive, Suite 700, New Haven, Connecticut and with Mark Steven Germain. The Stipulation and Agreement followed a Securities and Business Investments

Division investigation which revealed indications that the firm had transacted business as an investment adviser absent registration under The Connecticut Uniform Securities Act and that Mark Steven Germain had transacted business as an unregistered investment adviser agent.

Pursuant to the Stipulation and Agreement, both the firm and Mark Germain agreed to 1) refrain from taking custody of client funds or securities; 2) refrain from requiring prepayment of investment advisory fees of more than \$500 per client and more than six months in advance; 3) refrain from exercising any discretionary power in effecting a securities transaction for any customer's account without obtaining prior written approval from the Division Director; 4) obtain approval from the Division Director at least thirty days prior to making any change in the services to be provided to any person or organization; 5) no later than thirty days following the Commissioner's execution of the Stipulation and Agreement, offer to pay to each client who had been referred to Fairport Asset Management, Inc. since January 1, 1991 an amount equal to the compensation Fairport Asset Management, Inc. paid to the firm and to Germain with respect to such client; 6) honor client requests for the refunds described above within thirty days following the client's request; and 7) consult with legal counsel to establish supervisory and compliance procedures designed to detect and prevent regulatory violations. In addition, the Stipulation and Agreement obligated Mark Germain to take and pass the National Association of Securities Dealers Series 65 examination within thirty days following the Commissioner's execution of the Stipulation and Agreement.

Management Securities, Inc.

On September 8, 1992, the Banking Commissioner entered into a Stipulation and Agreement with Management Securities, Inc. of 1508 Southeast Third Avenue, Fort Lauderdale, Florida. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that since August 1991, the firm had transacted business as a broker-dealer absent registration in alleged violation of Section 36-474(a) of The Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) review its supervisory and compliance procedures to detect and prevent regulatory violations; 2) pay a \$750 civil penalty to the agency; and 3) pay the department \$250 representing uncollected registration fees for the period of unregistered activity.

LICENSING ACTIONS

Cambridge-Newport Company, Inc.

Alleged Net Capital Deficiency Prompts Issuance of Notice of Intent to Revoke Broker-dealer Registration and Summary Suspension Order

On July 9, 1992, the Banking Commissioner issued a Notice of Intent to Revoke the broker-dealer registration of Cambridge-Newport Company, Inc. of 530 Silas Deane Highway, Wethersfield, Connecticut. On the same day, the Commissioner ordered that the firm's broker-dealer registration be summarily suspended under Section 36-484 of the Connecticut Uniform Securities Act. The Commissioner's action was predicated on the firm's alleged wilful failure to have and maintain the minimum net capital prescribed by Rule 15c3-1 under the Securities Exchange Act of 1934. Such failure constituted a violation of Section 36-500-8(b)(1) of the Regulations under The Connecticut Uniform Securities Act and a basis for the agency to take action against the firm under Section 36-484(a)(2)(B) of the Act. The firm was provided with an opportunity for a hearing on both the Notice of Intent to Revoke registration and the summary order.

On August 12, 1992, having obtained information indicating that the firm had corrected its net capital deficiency, the agency issued an order withdrawing the July 9, 1992 summary suspension order.

Alleged Supervisory and Record Keeping Deficiencies Prompt Additional Regulatory Action Against Firm

Also on August 12, 1992, the Banking Commissioner issued a Notice of Intent to Revoke the firm's broker-dealer registration and ordered that the firm's registration be summarily suspended under Section 36-484 of the Connecticut Uniform Securities Act. This action was predicated on the firm's alleged wilful failure to maintain certain records required under The Connecticut Uniform Securities Act, its regulations and Securities Exchange Commission Rule 17a-4. In addition, the Commissioner alleged that the firm's failure to produce such records during the course of a Division examination and investigation and to maintain required records in a complete and accurate manner constituted an independent basis for administrative action under Section 36-484(a)(2)(L) of the Act. The Commissioner also

alleged that in allowing its registered agents to offer or sell unregistered investment contracts and notes in the state, which transactions were not submitted for recording on the firm's records, the firm failed to supervise its agents. If proven, the firm's failure to exercise supervisory controls would constitute a further basis for agency action under Section 36-484(a)(2)(K) of the Act.

The firm was provided with an opportunity for a hearing on both the August 12, 1992 Notice of Intent to Revoke registration and the accompanying summary order.

Pasquale J. Sacchetta - Notice of Intent to Revoke Broker-dealer Agent Registration Issued

On September 8, 1992, the Banking Commissioner issued a Notice of Intent to Revoke the registration of Pasquale J. Sacchetta as an agent of Cambridge-Newport Company, Inc., a broker-dealer. Sacchetta was also president of the firm. The Commissioner's action was based on allegations that, from approximately June 1987 to June 1991, Sacchetta wilfully violated Section 36-485 of The Connecticut Uniform Securities Act by offering and selling unregistered notes issued by Lincoln-Madison Consolidated Corporation and/or its predecessor, Cambridge-Newport Consolidated Corporation, to Connecticut persons. The Commissioner also alleged that such transactions were not submitted for recording on the records of Cambridge-Newport Company, Inc. and that this constituted a dishonest or unethical practice under Section 36-484(a)(2)(H) of the Act and Section 36-500-15(a)(2)(H)(i)(bb) of the Regulations thereunder. Mr. Sacchetta was afforded an opportunity for a hearing on the allegations in the Notice of Intent to Revoke.

Eric J. Youngquist - Notice of Intent to Revoke Broker-dealer Agent Registration Issued

On September 8, 1992, the Banking Commissioner issued a Notice of Intent to Revoke the registration of Eric J. Youngquist as an agent of Cambridge-Newport Company, Inc., a broker-dealer. Youngquist was also senior vice president of the firm. The Commissioner's action was based on allegations that, from approximately January 1988 to January 1991, Youngquist wilfully violated Section 36-485 of The Connecticut Uniform Securities Act by offering and selling unregistered investment contracts issued by Lincoln-Madison Consolidated Corporation and/or its predecessor, Cambridge-Newport Consolidated Corporation, to Connecticut persons. The Commissioner also alleged that such transactions were not submitted for recording on the records of

Cambridge-Newport Company, Inc. and that this constituted a dishonest or unethical practice under Section 36-484(a)(2)(H) of the Act and Section 36-500-15(a)(2)(H)(i)(bb) of the Regulations thereunder. Mr. Youngquist was afforded an opportunity for a hearing on the allegations in the Notice of Intent to Revoke.

Investment Center of Southern Connecticut, Inc. - Investment Adviser Registration Revoked

On July 29, 1992, the Banking Commissioner issued an Order revoking the investment adviser registration of Investment Center of Southern Connecticut, Inc. The firm maintains offices in Stratford and Bridgeport, Connecticut. The Commissioner found that the firm had 1) wilfully failed to comply with Section 36-482(b) of The Connecticut Uniform Securities Act and Section 36-500-13(b)(2)(A) of the Regulations thereunder by not filing financial reports for the years 1990 and 1991; 2) wilfully violated Section 36-500-8(c) of the Regulations by failing to have and maintain tangible assets in excess of liabilities to extent of at least \$1,000; and 3) wilfully violated Section 36-482(b) of The Connecticut Uniform Securities Act and Sections 36-500-13(b)(2)(B)(i) and 36-500-13(b)(2)(B)(ii) of the Regulations thereunder by not providing the Commissioner with telegraphic notice of its capital deficiency and by not filing up-to-date statements of its financial condition. The firm did not contest the Commissioner's June 19, 1992 Notice of Intent to Revoke Registration as an Investment Adviser which preceded the revocation order.

QUARTERLY STATISTICAL SUMMARY

July 1, 1992 through September 30, 1992

| <u>REGISTRATION</u> | <u>Securities</u> | <u>Business Opportunities</u> | <u>YTD</u> |
|--|-------------------|-------------------------------|---------------------|
| Total Coordination (Initial & Renewal) | 1,294 | n/a | 3,859 |
| - (Investment Co. Renewals 706) | | | |
| - (All Other Coordinations 588) | | | |
| Qualification (Initial) | 1 | n/a | 2 |
| Qualification (Renewal) | 1 | n/a | 3 |
| Regulation D Filings | 297 | n/a | 921 |
| Other Exemption or Exclusion Notices | 98 | 14 | 264 (SE) 32 (BO) |
| Business Opportunity (Initial) | n/a | 25 | 47 |
| Business Opportunity (Renewal) | n/a | 2 | 38 |

LICENSING & BRANCH OFFICE REGISTRATION

| | <u>Broker- Dealers</u> | <u>Investment Advisers</u> | <u>Issuers</u> | <u>YTD</u> |
|---|----------------------------|--------------------------------|----------------|--------------------------------------|
| Firm Initial Registrations Processed | 80 | 58 | n/a | 163 (BD) 146 (IA) |
| Firms Registered as of 9/30/92 | 1,570 | 809 | n/a | n/a |
| Agent Initial Registrations Processed | 5,633 | 886 | 17 | 16,135 (BD) 2,006 (IA) 25 (IS) |
| Agents Registered as of 9/30/92 | 55,401 | 6,061 | 145 | n/a |
| Branch Office Registrations Processed | 23 | 6 | n/a | 112 (BD) 18 (IA) |
| Branch Offices Registered as of 9/30/92 | 548 | 127 | n/a | n/a |
| Examinations Conducted | 7 | 12 | 0 | 33 (BD) 39 (IA) 0 (IS) |

| <u>INVESTIGATIONS</u> | <u>Securities</u> | <u>Bus. Opportunities</u> | <u>YTD</u> |
|--|-------------------|---------------------------|---------------------|
| Investigations Opened | 51 | 15 | 139 (SE) 52 (BO) |
| Investigations Closed | 59 | 28 | 134 (SE) 73 (BO) |
| Investigations in Progress as of 9/30/92 | 68 | 15 | n/a |
| Subpoenas Issued | 7 | 0 | 28 (SE) 3 (BO) |

**ADMINISTRATIVE
ENFORCEMENT ACTIONS**

Number

Parties

YTD (#/Parties)

Securities

| | | | |
|--|----|----|----------|
| Cease and Desist Orders | 2 | 2 | 5/13 |
| Denial, Suspension & Revocation Notices | 4 | 4 | 6/6 |
| Denial, Suspension & Revocation Orders | 2 | 2 | 4/4 |
| Cancellation Notices | 0 | 0 | 0/0 |
| Cancellation Orders | 0 | 0 | 0/0 |
| Notices of Intent to Fine | 0 | 0 | 0/0 |
| Orders Imposing Fine | 0 | 0 | 0/0 |
| Notices of Intent to Issue Stop Order | 0 | 0 | 0/0 |
| Stop Orders Issued | 0 | 0 | 0/0 |
| Miscellaneous Orders | 1 | 1 | 2/2 |
| Consent Orders Executed | 2 | 2 | 4/4 |
| Stipulation and Agreements | 10 | 12 | 28 27/33 |
| New Referrals (Civil) | 4 | 4 | 1/6 |
| New Referrals (Criminal) | 0 | 0 | 2/4 |

Business Opportunities

| | | | |
|--|---|---|-----|
| Cease and Desist Orders | 0 | 0 | 2/5 |
| Notices of Intent to Fine | 0 | 0 | 0/0 |
| Orders Imposing Fine | 0 | 0 | 0/0 |
| Notices of Intent to Issue Stop Order | 0 | 0 | 0/0 |
| Stop Orders Issued | 0 | 0 | 0/0 |
| Miscellaneous Orders | 0 | 0 | 0/0 |
| Consent Orders Executed | 0 | 0 | 0/0 |
| Stipulation and Agreements | 0 | 0 | 3/4 |
| New Referrals (Civil) | 0 | 0 | 1/1 |
| New Referrals (Criminal) | 0 | 0 | 0/0 |

Monetary Sanctions

\$ Assessed

YTD

| | | |
|--|---------------|------------------|
| Consent Orders (Securities) | 1,000 | 1,000 |
| Stipulation and Agreements (Securities) | 22,550 | 152,240 |
| Stipulation and Agreements (Business Opportunities) | 0,000 | 11,000 |
| Totals | 23,550 | \$164,240 |

SECURITIES BULLETIN DATA CHANGE FORM

ARE OUR RECORDS CORRECT?

Address or name changes may be made by using this form or by forwarding notice of the change to the Division. Be sure to include both old and new information as well as zip code number. Allow approximately four weeks for the change to be processed.

Data changes should be directed to the attention of Louise Hanson, State of Connecticut Department of Banking, Securities and Business Investments Division, 44 Capitol Avenue, Hartford, Connecticut 06106 (tel: 203-566-4560).

Check whichever applies: () Name change () Address change

Please check: () Broker-dealer () Broker-dealer agent
() Investment adviser (including financial planners)
() Investment adviser agent
() Other

Revised Name and/or Address

Name of contact person _____
Firm or entity _____
Street address _____
City/Town _____
State and Zip _____
Telephone () _____

Previous Name and/or Address

Former contact person _____
Former firm or entity _____
Old street address _____
Former city/town _____
Former state and zip _____
Telephone () _____

CAUTIONARY NOTE: Filing a name/address change may also require the filing of an amendment to your registration as a broker-dealer, investment adviser or branch office. This form **CANNOT** be used to meet your obligation to file the appropriate amendment.