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**SECURITIES AND BUSINESS INVESTMENTS DIVISION**

**BULLETIN**

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A WORD FROM THE BANKING COMMISSIONER

The past year has been a difficult economic period for Connecticut. The serious problems experienced by the state's banks have been well publicized, and they have necessarily been a primary focus of the Department of Banking.

Nevertheless, the department has very conscientiously met its other regulatory responsibilities, and highlights of the Securities and Business Investments Division's accomplishments over the year merit mention. In 1991, the department negotiated with First Investors Corporation the agency's largest settlement agreement. The settlement was predicated on alleged misleading investment sales practices by the firm. I'm especially pleased to note the clear public benefit of that settlement's terms, as nearly \$1 million will be returned to Connecticut investors. The department's philosophy is that settlements should be tailored to specific problems and include remedial as well as punitive measures.

Securities Forum '91, an educational program covering important topics such as broker-dealer and financial planner regulation, was also successfully presented by the Securities and Business Investments Division and the Securities Advisory Committee to the Banking Commissioner. Over one hundred attending persons, including financial professionals and members of the bar, benefitted from the day's informative discussions. An improved, comprehensive investor education program will be a special department goal for the future.

I don't have a financial divining rod, but as we head into 1992 my sense is that we'll be in better shape at year's end. I look forward to the Department of Banking contributing to the integrity and strength of the financial markets through the regulatory efforts of the Securities and Business Investments Division.

  
Ralph M. Shulansky  
Banking Commissioner 

SECURITIES FORUM '91 SPOTLIGHTS COMPLIANCE ISSUES

On November 13, 1991, the Securities and Business Investments Division of the department and the Securities Advisory Committee to the Banking Commissioner hosted Securities Forum '91, an educational program for financial professionals and members of the bar. Over one hundred people attended the program.

Divided into two segments, the program featured department staff as well as Lois Cohen, Assistant General Counsel of Advest Inc.; William H. Cuddy, a partner in the Hartford law firm of Day, Berry and Howard; Willis H. Riccio, vice president and director of the National Association of Securities Dealers Boston Regional Office; William S. Rogers, a partner in the Hartford law firm of Tyler Cooper & Alcorn; Willard F. Pinney, Jr., a partner in the Hartford law firm of Murtha, Cullina Richter and Pinney; Rolf H. Olson, president of Olson Mobeck & Associates, Inc.; Dennis R. Surprenant, Assistant Regional Administrator of the Boston regional office of the Securities and Exchange Commission; and Nicholas Wolfson, a law professor at the University of Connecticut School of Law. Messrs. Cuddy and Wolfson are members of the Securities Advisory Committee to the Banking Commissioner, which is chaired by Mr. Pinney.

Banking Commissioner Ralph M. Shulansky welcomed those in attendance at the Forum, soliciting their ideas on topics for further educational programs.

The first panel, moderated by Division Director Ralph A. Lambiase, covered broker-dealer regulation. Mr. Lambiase provided an overview of Securities and Business Investments Division functions and provided statistics on the number of broker-dealers and agents registered in the state. Mr. Lambiase also noted that the department was striving to improve its investor education efforts and planned to develop pamphlets for distribution to schools and community groups.

Willis Riccio discussed the functions of the NASD as a self-regulatory organization and gave an overview of NASD disciplinary procedures. Riccio predicted that, with its new authority to impose administrative fines, the Securities and Exchange Commission would take a stricter approach to enforcement which would affect the regulatory outlook of the SROs as well.

Lois Cohen of Advest outlined that firm's internal procedures when dealing with civil inquiries, court ordered inquiries and requests for information by regulatory bodies. She emphasized the

importance of communicating with regulators and ensuring that appropriate remedial controls were in place. William Rogers noted that states were becoming more active in monitoring the securities area. He recommended that, in deciding whether to contest regulators' positions, broker-dealers should consider the merits of their case and employ a cost-benefit analysis in determining whether to explore informal resolution of the matter.

William Cuddy conducted a study of department settlements and informal stipulations. He noted that typical problem areas included licensing, selling unregistered securities, fraud, dishonest or unethical practices (e.g. suitability), supervision, reporting (e.g. failure to file required financial statements) and misrepresentations concerning registered status as a broker-dealer or investment adviser. Cuddy divided the sanctions and remedies evidenced by informal agreements into what he called "The Five R's": 1) "restitution" (including notice to investors of violative conduct and rescission offers); 2) "retribution" (including fines, investigative costs and back registration fees), 3) "responsibility" (e.g. enhanced supervisory controls, suspended registration, agreements to refrain from acting as a broker-dealer, investment adviser or issuer for a designated period), 4) "remediation" (e.g. firm training sessions for agents, enhanced compliance procedures), and 5) "the rest" (e.g. contributing to an Investor Education Fund administered by the department, providing the department with periodic information on activities and investor complaints).

During the second panel, Robert Rosenthal of the department provided an overview of P.A. 91-145 which made various amendments to the Connecticut Uniform Securities Act. Professor Nicholas Wolfson presented the audience with a detailed analysis of insider trading and misappropriation theories, including a discussion of the recent United States Supreme Court decision in United States v. Chestman, 1991 U.S. App. LEXIS 23242, Fed. Sec. L. Rep. (CCH) 96,259 (1991).

Bill Pinney provided a summary of financial planner regulation, with an emphasis on SEC Release 1092 and the application of state investment adviser registration provisions to attorneys and accountants. According to Mr. Pinney, the manner in which a professional marketed his or her services often had a bearing on investment adviser status. Rolf Olson capped the program with a discussion on wrap fees, soft dollar arrangements and issues surrounding the need for attorneys and accountants providing investment management services to register as investment advisers.

NASAA RELATED ACTIVITIES

At its 1991 Fall Conference held in San Diego, California, the membership of the North American Securities Administrators Association, Inc. ("NASAA") elected Ralph Lambiase, Director of the Securities and Business Investments Division of the Connecticut Department of Banking, to its nine member board.

In addition, two individuals in the Securities and Business Investments Division will be serving on NASAA committees in 1992. Cynthia Antanaitis, Assistant Director of the Division, was reappointed to the Investor Alert Committee. John P. Walsh, Principal Examiner with the division, was reappointed to the NASAA Enforcement Zone Committee.

ENFORCEMENT HIGHLIGHTS

ADMINISTRATIVE SANCTIONS

Cease and Desist Orders

Magical World of Toys, Inc., Andrew Sanchez, Jr. and Charles Meyette

On August 16, 1991, the Banking Commissioner issued a cease and desist order against Magical World of Toys, Inc., now or formerly of 1700 West Loop South, Suite 370, Houston, Texas; Andrew Sanchez, Jr., its president; and Charles Meyette, its regional manager. The Order alleged that the respondents violated the registration provisions of Sections 36-505(a), 36-508(a) and 36-510 of the Connecticut Business Opportunity Investment Act in offering unregistered toy distributorships in the state. The Order further alleged that the respondents failed to provide appropriate disclosures in accordance with Section 36-506(a) of the Act. In addition, the department claimed that the respondents violated Section 36-510(3) of the Act through their unauthorized use of the Disney trademark, and that the corporation violated Section 36-510(6)(B) of the Act by materially misrepresenting and making material omissions concerning its relationship with Disney. Since none of the respondents requested a hearing within the prescribed time period, the Order became permanent as to all respondents on September 13, 1991.

Continental Vending Corporation of South Florida, Charles Nelson, Allan Kerns, Stan Roberts, David Kyte and Jerry Clark

On August 16, 1991, the Banking Commissioner issued a cease and desist order against Continental Vending Corporation of South Florida, now or formerly of 3201 Griffin Road and 4101 Ravenswood Road, Fort Lauderdale, Florida; Charles Nelson, its president; David Kyte, its vice president; and Allan Kerns, Stan Roberts and Jerry Clark, its representatives. The Order alleged that the respondents offered unregistered vending machine business opportunities in violation of Sections 36-505(a), 36-508(a) and 36-510(1) of the Connecticut Business Opportunity Investment Act. The Order also alleged that the respondents failed to provide appropriate disclosures in accordance with Section 36-506(a) of the Act. Since none of the respondents requested a hearing within the prescribed time period, the Order became permanent as to all respondents on September 12, 1991.

Commercial Monetary Development, Inc. - Findings of Fact,  
Conclusions of Law and Order Issued

On September 19, 1991, following an administrative hearing, the Banking Commissioner issued Findings of Fact, Conclusions of Law and an Order to Cease and Desist against Commercial Monetary Development, Inc. ("CMD") of 7920 Ward Parkway, Suite 211, Kansas City, Missouri. CMD and its agent, Mike Ryan, had been the subject of a May 30, 1990 Order to Cease and Desist which alleged that the respondents had violated the Connecticut Business Opportunity Investment Act by offering or selling unregistered business opportunities to Connecticut residents for the purpose of enabling those residents to start a loan brokerage business. Inasmuch as respondent Mike Ryan did not request a hearing on the allegations in the Cease and Desist Order, the Cease and Desist Order became permanent as to Ryan on June 22, 1990.

Based on the CMD hearing record, the Commissioner found that CMD had offered to sell an unregistered business opportunity or interest in a business opportunity for value in Connecticut and thus violated Sections 36-505(a), 36-508(a) and 36-510(1) of the Act. The Commissioner was unable to conclude, however, that CMD had violated Section 36-506(a) of the Act, which requires the delivery of a disclosure document, since the record did not indicate any evidence of actual sales in the state.

In analyzing the record, the Commissioner noted that CMD's business opportunity was characterized by the provision of a "sales program or marketing program" within the meaning of Section 36-504(6)(D) of the Act. The Commissioner noted that, in construing the phrase, the department looked to the definition of "marketing plan" found in Section 101E of the North American Securities Administrators Association, Inc. Model Business Opportunity Sales Act, [Permanent Binder] NASAA Reports (CCH) 4202 at p. 3103. In addition, the Commissioner determined that the fact that the purchaser-investor was under no obligation to abide by CMD's suggestions or recommendations concerning the use of its products and services did not weaken the claim that such materials were "provided" by CMD as part of a "sales program or marketing program."

Independent Travel Agencies of America Association and David  
Mueller

On October 15, 1991, the Banking Commissioner issued a cease and desist order against Independent Travel Agencies of America

Association, now or formerly of 1597 West Ridge Road, Suite 301, Rochester, New York, and its president, David Mueller. The Order alleged that the respondents offered Connecticut residents supplies and services to enable those residents to start a home or small commercial travel agency; that the respondents conditionally guaranteed that purchasers of the opportunity would receive income; that respondents represented that a sales program or marketing program would be provided; that the respondents violated Sections 36-505(a), 36-508(a) and 36-510(1) of the Connecticut Business Opportunity Investment Act by offering unregistered business opportunities; and that the respondents violated Section 36-506(a) of the Act by failing to furnish a required disclosure document to Connecticut purchasers. Since neither respondent requested a hearing within the prescribed time period, the Order became permanent as to both respondents on November 5, 1991.

Toy Express, Inc. and Winthrop Drake Thies

On December 10, 1991, the Banking Commissioner issued a cease and desist order against Toy Express, Inc., now or formerly of 4265 San Felipe, Suite 500, Houston, Texas and its president Winthrop Drake Thies. The Order alleged that the respondents violated the registration provisions of Sections 36-505(a), 36-508(a) and 36-510 of the Connecticut Business Opportunity Investment Act in offering unregistered toy distributorships in the state. The Order further alleged that the respondents failed to provide appropriate disclosures in accordance with Section 36-506(a) of the Act. In addition, the department claimed that the respondents violated Section 36-510(3) of the Act through their unauthorized use of the Disney trademark, and that the corporation violated Section 36-510(6)(B) of the Act by materially misrepresenting and making material omissions concerning its relationship with Disney. Since neither respondent requested a hearing within the prescribed time period, the Order became permanent as to both respondents on December 30, 1991.

Stipulation and Agreements

Bell Atlantic Distributors, Inc.

On July 17, 1991, the Banking Commissioner entered into a Stipulation and Agreement with Bell Atlantic Distributors, Inc. of 1600 Market Street, 29th Floor, Philadelphia, Pennsylvania. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which uncovered evidence that, in December 1990 and January 1991, the firm effected a



securities transaction for a Connecticut customer without having been registered as a broker-dealer as required by Section 36-474(a) of the Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) review and revise its supervisory procedures as necessary to prevent future regulatory violations; 2) reimburse the Division up to \$1,000 for the cost of an examination to be conducted within twelve months following the Commissioner's execution of the Stipulation and Agreement; and 3) notify the Connecticut customer in writing of the firm's unregistered status at the time of the customer's securities transaction.

Carret Securities, Inc.

On July 17, 1991, the Banking Commissioner entered into a Stipulation and Agreement with Carret Securities, Inc. of 560 Lexington Avenue, New York, New York. The Stipulation and Agreement followed a Securities and Business Investments Division investigation into the firm's apparent violation of Section 36-474 of the Connecticut Uniform Securities Act. Information obtained by the Division indicated that the firm had transacted business as a broker-dealer in the state in violation of Section 36-474(a) of the Act and had employed unregistered agents in violation of Section 36-474(b) of the Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) pay a \$3,000 fine to the state; and 2) offer its clients the opportunity to rescind those securities transactions effected prior to registration.

Creative/CW Equities Corporation

On July 17, 1991, the Banking Commissioner entered into a Stipulation and Agreement with Creative/CW Equities Corporation of 5550 Friendship Boulevard, Suite 500, Chevy Chase, Maryland. The Stipulation and Agreement followed a Securities and Business Investments Division investigation into the firm's apparent violation of Section 36-474 of the Connecticut Uniform Securities Act. Information obtained by the Division indicated that the firm had transacted business as a broker-dealer in the state in apparent violation of Section 36-474(a) of the Act and had employed an unregistered agent in violation of Section 36-474(b) of the Act. Only one Connecticut customer was involved.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) institute compliance and surveillance procedures designed to

prevent and detect regulatory violations; 2) pay the Division \$500 to cover back registration fees; and 3) provide written notice of its unregistered status to the Connecticut customer with whom it had done business during the period of unregistered activity.

Delafield, Harvey, Tabell Incorporated

On July 17, 1991, the Banking Commissioner entered into a Stipulation and Agreement with Delafield, Harvey, Tabell Incorporated of 5 Vaughn Drive, CN 5209, Princeton, New Jersey. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which uncovered evidence that, between September, 1983 and April, 1991, the firm had transacted business as an unregistered investment adviser in Connecticut in apparent violation of Section 36-474(c) 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) reimburse the Division \$1,800 for its investigative costs; and 3) remit \$1,700 to the agency to cover back registration fees.

Stenhouse, Weiner, Sherman, Ltd.

On July 18, 1991, the Banking Commissioner entered into a Stipulation and Agreement with Stenhouse, Weiner, Sherman, Ltd. of 440 South LaSalle Street, Suite 2950, Chicago, Illinois. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that the firm had transacted business as a broker-dealer in Connecticut absent registration in apparent violation of Section 36-474(a) of the Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) review and modify its supervisory procedures to detect and prevent future regulatory violations; 2) remit \$1,000 to the agency to cover back registration fees; and 3) reimburse the Division \$1,500 for its investigative costs.

First Investors Corporation

On July 30, 1991, the Banking Commissioner entered into a Stipulation and Agreement with First Investors Corporation ("FI"), a registered broker-dealer based in New York, New York. The Stipulation and Agreement followed a Securities and Business Investments Division investigation into the firm's sales practices relating to junk bond securities of First Investors

Fund for Income, Inc. and First Investors High Yield Fund, Inc. (the "Securities").

The settlement required that the firm compensate those Connecticut investors who lost money through investments in the Securities between November 7, 1984 and November 7, 1990 (the "Period"). Payment would be made from a \$970,600 interest-bearing escrow account established by an Independent Reviewer at one or more Connecticut banks. Funding for the escrow account would be provided by the firm based on a percentage of the firm's gross sales of the Securities in Connecticut from 1984 to 1990. A Connecticut-based certified public accountant or attorney would be appointed by the firm to act as Independent Reviewer, subject to the Commissioner's approval.

Offers of compensation would be extended to natural persons who, while located in Connecticut, initially purchased the Securities during the Period, regardless of whether they currently resided in Connecticut or continued to hold the Securities. Individuals who acted as agents or sales representatives for FI during the Period, however, could not participate in the compensation offer. In addition, at the time of initial purchase, eligible claimants had to have 1) an adjusted gross income of \$25,000 or less; or 2) both a net worth (with spouse) of \$50,000 or less (exclusive of primary residence) and an investment of more than 20% (excluding primary residence) of their net worth in the Securities. Determining whether a prospective claimant satisfied the eligibility requirements and, if so, how much the claimant would be paid, would be the responsibility of the Independent Reviewer whose decision would be final and non-reviewable. The Stipulation and Agreement obligated the firm to provide the Independent Reviewer with documents relevant to determining an investor's income and net worth.

For investors who, as of July 30, 1991, no longer held the Securities, compensation would equal the actual market losses realized on the sale of the Securities, less the total value of all dividends paid and received on the Securities, plus the value of all commissions and fees paid for the purchase. Investors having no such market loss but who experienced an actual net loss due to the payment of commissions and fees would be limited to the amount of the net loss.

For investors who, as of July 30, 1991, continued to hold the Securities, compensation would equal the unrealized losses relating to the investment, less the total value of all

dividends paid and received prior to July 30, 1991, plus the value of all commissions and fees paid for the purchase of the Securities. Unrealized losses would be determined by looking to the Securities' net asset value as of July 30, 1991. Investors having no such unrealized loss, but who experienced an actual net loss due to the payment of commissions and fees on the purchase of the Securities would be entitled to claim the amount of the net loss.

As a precondition to the payment of compensation, the firm could require that claimants waive their rights to any further legal remedies against FI or any of its affiliates, officers, directors, employees, agents, associates or representatives relating to losses from the Securities during the Period.

The final date for eligible claimants to accept payment would be set by the Independent Reviewer. Payment would follow within 30 days. If total claims exceeded the amount in the escrow account, each claimant would receive his or her pro rata share without any further obligation on the part of the firm. In the event the amount in the escrow account exceeded claims, the Independent Reviewer would remit the difference to the Department of Banking. The Stipulation and Agreement, however, also contained an escalator contingency. Under that provision, if, before July 30, 1993, a settlement with another state securities agency resulted in the payment of more than that jurisdiction's proportionate share of firm funds available for settlement, the firm would pay 4.22 percent of the excess to the Independent Reviewer for deposit in the escrow account; that additional amount would be proportionately allocated to eligible Connecticut claimants on July 30, 1993, with any excess being paid to the department.

Individual written notice and notice by publication of the claims procedure would be provided to investors by August 30, 1991. Eligible investors would have 90 days from the postmark date of their individual notice or from the last publication of the notice to file a claim with the Independent Reviewer.

Under the Stipulation and Agreement, the firm also agreed to 1) strengthen and update its internal compliance procedures; 2) train all of its Connecticut registered agents on proper sales practices relating to junk bond mutual funds; 3) refrain from using any visual or written sales materials which failed to emphasize the risk and volatility of junk bond mutual funds; 4) report on its compliance with the training and compliance provisions of the Stipulation and Agreement; 5) provide periodic reports on customer complaints; 6) reimburse the Division

\$25,000 for its investigative costs; 7) reimburse the Division up to \$3,000 to cover the cost of one or more examinations of the firm's offices to be conducted within 18 months; and 8) pay the department up to \$5,000 for the cost of an investor brochure or similar document on mutual funds.

Armstrong Shaw Associates, Incorporated

On August 21, 1991, the Banking Commissioner entered into a Stipulation and Agreement with Armstrong Shaw Associates, Incorporated of 96 Cummings Point Road, Stamford, Connecticut. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which uncovered indications that between February 1986 and June 1991, the firm had transacted business as an unregistered investment adviser and employed unregistered investment adviser agents 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; 2) reimburse the department \$5,000 for the Division's costs of investigation and 3) notify its Connecticut clients of its unregistered status.

Chicago Partnership Board, Inc.

On August 21, 1991, the Banking Commissioner entered into a Stipulation and Agreement with Chicago Partnership Board, Inc. of 185 North Wabash Avenue, Suite 1900, Chicago, Illinois. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that the firm had transacted business as an unregistered broker-dealer and employed unregistered agents in alleged violation of Section 36-474 of the Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) institute compliance and surveillance procedures designed to prevent and detect future regulatory violations; 2) reimburse the department \$2,500 for administrative costs; 3) reimburse the agency up to \$1,500 for the costs of an examination of the firm's office to be conducted within eighteen months following the agency's execution of the Stipulation and Agreement; and 4) provide the Division with a written representation that the firm's Connecticut customers were sophisticated and accredited investors.

M.D. Hirsch Investment Management Incorporated

On August 21, 1991, the Banking Commissioner entered into a Stipulation and Agreement with M.D. Hirsch Investment Management Incorporated of 522 Fifth Avenue, Suite 1600, New York, New York. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which uncovered indications that between February 1991 and June 1991, the firm had transacted business as an unregistered investment adviser and employed unregistered investment adviser agents in apparent 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; 2) reimburse the department \$500 for the Division's costs of investigation and 3) within twenty days following the agency's execution of the Stipulation and Agreement, offer in writing to rescind those securities transactions effected for Connecticut investment advisory clients during the period of unregistered activity.

Dean Witter Reynolds, Incorporated

On August 26, 1991, the Banking Commissioner entered into a Stipulation and Agreement with Dean Witter Reynolds, Incorporated of 130 Liberty Street, New York, New York. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which uncovered indications that between May 1989 and May 1991, the firm had employed unregistered investment adviser agents in alleged violation of Section 36-474(c) 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 \$15,000 fine to the department; 3) remit to the department \$1,890 representing back registration fees; and 4) reimburse the department up to \$2,000 for the cost of an examination to be conducted by the Division within twelve months following the Commissioner's execution of the Stipulation and Agreement.

Pacific Southern Securities, Inc.

On September 6, 1991, the Banking Commissioner entered into a Stipulation and Agreement with Pacific Southern Securities,

Inc., formerly known as Pacific Rim Securities, Inc., of 1660 South Albion, Suite 1110, Denver, Colorado. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which uncovered evidence that in November 1988, the firm had employed Louis Charles Alonzi as an agent while Mr. Alonzi was not registered under the Connecticut Uniform Securities Act and that, in so doing, the firm had failed to carry out its supervisory responsibilities. The Division alleged that the firm's employment of an unregistered agent violated Section 36-474 of the Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) extend to the two Connecticut residents for whom Mr. Alonzi had effected securities transactions an offer to refund sums paid by the investors for securities purchased, plus interest and less income received; 2) review and modify its supervisory procedures to detect and prevent regulatory violations; and 3) reimburse the Division \$1,500 for investigative costs.

PaineWebber Incorporated

On September 30, 1991, the Banking Commissioner entered into a Stipulation and Agreement with PaineWebber Incorporated whose principal office is located at 1200 Harbor Boulevard, Weehawken, New Jersey. The Stipulation and Agreement followed a Notice of Intent to Suspend the firm's broker-dealer and investment adviser registration and a Notice of Intent to Fine (together, the "Notices") issued by the department on August 19, 1991. The Notice of Intent to Suspend registration had claimed that from 1988 to 1991, the firm had employed unregistered agents in wilful violation of Section 36-474(c) of the Connecticut Uniform Securities Act. The Notice of Intent to Suspend registration had also alleged that in 1987 and 1988, the firm, through its former agent, Mark Stephen Buciak, wilfully made unsuitable recommendations to a Connecticut customer; and that, in making such recommendations, the firm wilfully violated the antifraud provisions in Section 36-472 of the Act and engaged in dishonest or unethical practices in the securities business. The Notice of Intent to Fine had been based on alleged violations of Sections 36-474(c) and 36-472 of the Connecticut Uniform Securities Act arising from the same factual claims set forth in the Notice of Intent to Suspend registration.

Pursuant to the Stipulation and Agreement, the firm agreed to pay \$75,000 to the department, \$50,000 of which represented a civil penalty and \$25,000 of which represented reimbursement to the Securities and Business Investments Division for its costs

of investigation. The firm also agreed to 1) issue a "compliance alert" to all of its branch offices concerning Connecticut requirements for investment adviser agent registration; 2) take steps to ensure that new Connecticut managers were advised of the Stipulation and Agreement and that compliance with the terms of the Stipulation and Agreement was observed; 3) implement written procedures requiring that the firm's managed accounts department compare each managed account opened for a Connecticut resident against a master list of Connecticut registered investment adviser agents and to reject any applications submitted by investment executives not registered as investment adviser agents in Connecticut; 4) develop a computer run enabling the firm to check the investment adviser agent registration status of investment executives who opened managed accounts with Connecticut residents and institute a review procedure whereby accounts opened by non-registered personnel would be closed and all commissions and fees would be reversed; 5) modify its Sales Practices Policy Manual to ensure that firm personnel were aware of Connecticut registration requirements; 6) conduct training and information sessions for all investment executives authorized by the firm to do business in Connecticut; 7) within 120 days following the Commissioner's execution of the Stipulation and Agreement, submit a written report to the Division summarizing the firm's efforts to comply with key terms of the Stipulation and Agreement; 8) offer restitution to the Connecticut client of Mark Buciak; and 9) reimburse the department for the actual cost of one or more examinations of the firm's offices.

In light of the Stipulation and Agreement, on September 30, 1991, the Commissioner issued an Order withdrawing the two Notices.

#### First Albany Corporation

On October 31, 1991, the Banking Commissioner entered into a Stipulation and Agreement with First Albany Corporation. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that, between July 1988 and July 1989, the firm employed unregistered agents in alleged violation of Section 36-474(b) of the Connecticut Uniform Securities Act and that the firm had executed option trades for Connecticut residents without obtaining a written option agreement from such customers.

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) reimburse the Division



\$7,500 for the Division's investigative costs; and 3) reimburse the Division up to \$500 for the costs of one or more examinations of the firm's offices to be conducted by the Division within 18 months following the Commissioner's execution of the Stipulation and Agreement.

Morgan Stanley and Company, Incorporated

On October 23, 1991, the Banking Commissioner entered into a Stipulation and Agreement with Morgan Stanley and Company, Incorporated of 1251 Avenue of the Americas, New York, New York. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which uncovered indications that, between November 1982 and March 1991, the firm had transacted business as an investment adviser in Connecticut absent registration and had employed unregistered investment adviser agents, all in alleged violation of Section 36-474(c) of the Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) review and modify its supervisory procedures to detect and prevent regulatory violations; 2) reimburse the Division \$25,000 for the Division's investigative costs; 3) reimburse the department for the cost, not to exceed \$2,000, of an examination of the firm's offices to be conducted within 18 months following the Commissioner's execution of the Stipulation and Agreement; and 4) pay \$3,700 to the department representing back registration fees.

Gorland Securities, Incorporated

On November 6, 1991, the Banking Commissioner entered into a Stipulation and Agreement with Gorland Securities, Incorporated of 372 Danbury Road, Wilton, Connecticut. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed evidence that the firm transacted business as a broker-dealer in Connecticut 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) notify affected clients in writing of its unregistered status at the time of the clients' securities transactions; 2) reimburse the Division \$500 for the Division's investigative costs; and 3) review and revise, as necessary, its supervisory and compliance procedures to prevent future regulatory violations.

General Sonics Corp. and Denis Patrick O'Sullivan

On December 3, 1991, the Banking Commissioner entered into a Stipulation and Agreement with General Sonics Corp. of 7 Lee Avenue, Danbury, Connecticut and Denis Patrick O'Sullivan, its president. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which uncovered indications that in or about June 1991, the corporation and O'Sullivan offered securities in the form of "Growth Warrantys" and stock in contravention of the securities registration requirements in Section 36-485 of the Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, General Sonics Corp. and O'Sullivan agreed to 1) cease and desist from further regulatory violations; 2) refrain from transacting business as broker-dealers, agents, investment advisers or investment adviser agents in Connecticut for a four year period; and 3) refrain from soliciting or accepting funds for investment purposes from public or private investors in Connecticut without consulting with legal counsel concerning securities law compliance and notifying the Division in writing of any such proposed activities at least thirty days prior to the solicitation or acceptance of funds, whichever first occurred.

Webster Cash Reserve Fund, Inc. d/b/a Kidder, Peabody Cash Reserve Fund; Kidder, Peabody & Co. Incorporated

On December 12, 1991, the Banking Commissioner entered into a Stipulation and Agreement with Webster Cash Reserve Fund, Inc. d/b/a Kidder, Peabody Cash Reserve Fund of 20 Exchange Place, New York, New York, and with Kidder, Peabody & Co. Incorporated of 10 Hanover Square, New York, New York, distributor for the Fund. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed that from approximately September 19, 1991 to November, 1991, the Fund, through its distributor, offered and sold unregistered non-exempt shares to Connecticut residents when no renewal registration was in effect under the Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the Fund and its distributor agreed to refrain from regulatory violations and to implement a revised system of procedures designed to ensure compliance with blue sky registration requirements, particularly insofar as they pertained to monitoring deadlines for the renewal of registration. In addition, the Fund agreed to effect

a registration of its shares before making any Connecticut offers or sales of non-exempt securities. The distributor agreed to remit \$1,000 to the agency representing reimbursement for investigative costs and an administrative fine. In furtherance of its desire to resolve the matter, the Fund had submitted an application to renew its registration which was made effective contemporaneously with the Commissioner's execution of the Stipulation and Agreement.

Harris Bretall Sullivan & Smith, Inc.

On December 17, 1991, the Banking Commissioner entered into a Stipulation and Agreement with Harris Bretall Sullivan & Smith, Inc. of One Post Street, Suite 2300, San Francisco, California. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that between January 1989 and July 1991, the firm had transacted business as an investment adviser absent registration under the Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the firm agreed to pay a \$1,500 fine to the state and to review and modify its supervisory and compliance procedures to detect and prevent regulatory violations.

S.W. Childs Management Corporation

On December 30, 1991, the Banking Commissioner entered into a Stipulation and Agreement with S.W. Childs Management Corporation of 15 Maiden Lane, New York, New York. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed evidence that the firm transacted business as a broker-dealer in Connecticut absent registration in alleged violation of Section 36-474(a) of the Connecticut Uniform Securities Act and employed unregistered agents in alleged violation of Section 36-474(b) of the Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) review and modify its supervisory and compliance procedures to prevent and detect future regulatory violations; 2) reimburse the Division \$2,500 for the Division's investigative costs; 3) remit to the department \$4,000 representing back registration fees; 4) reimburse the Division up to \$1,000 for the cost of an examination to be conducted within eighteen months following the Commissioner's execution of the Stipulation and Agreement; and 5) register its Norfolk, Connecticut office as a branch office under Section 36-474(d) of the Act.

Licensing Actions

Kochcapital, Inc. - Notice of Intent to Revoke Registration Issued

On October 15, 1991, the Banking Commissioner issued a Notice of Intent to Revoke the broker-dealer registration of Kochcapital, Inc., now or formerly of 35 148th Avenue, S.E., Bellevue, Washington. The Notice was predicated on a censure, fine and expulsion from membership imposed against the firm by the National Association of Securities Dealers for alleged violations of Article III, Sections 1 and 27 of the NASD's Rules of Fair Practice. The NASD action became final on February 27, 1991. The Notice of Intent to Revoke provided the firm with an opportunity for a hearing on the allegations in the Notice.

Gallagher & Co. - Notice of Intent to Revoke Registration Issued

On November 26, 1991, the Banking Commissioner issued a Notice of Intent to Revoke the broker-dealer registration of Gallagher & Co., Inc. The Notice was predicated, in part, on a June 5, 1991 revocation action by the Securities and Exchange Commission against the firm and an SEC bar against Russell K. Gallagher, the firm's sole owner and Laura G. Gallagher, a principal of the firm. The SEC action had been based on findings that the firm engaged in fraudulent securities offerings. The Notice of Intent to Revoke provided the firm with an opportunity for a hearing on the allegations therein.

Mark Stephen Buciak - Notice of Intent to Deny Registration Issued

On December 23, 1991, the Banking Commissioner issued a Notice of Intent to Deny Mark Stephen Buciak's application to become registered as a broker-dealer agent of G.R. Phelps & Co., Inc. The Notice of Intent to Deny registration alleged that in 1987 and 1988, while employed as an agent of PaineWebber Incorporated, Mark Stephen 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 Notice provided Mark Stephen Buciak with an opportunity for a hearing on the allegations therein.

Stop Orders

• National Mortgage Network of America, Inc.

On November 26, 1991, the Commissioner issued a Stop Order denying effectiveness to the pending business opportunity registration of National Mortgage Network of America, Inc., now or formerly of 40 Industrial Park Road, Plymouth, Massachusetts. In the Stop Order, the Commissioner concluded that the concern, whose business consists of recruiting, training and serving franchisees desiring to start a loan and mortgage brokerage business, had filed an application which was materially incomplete since it did not contain the disclosures required by the Connecticut Business Opportunity Investment Act. National Mortgage Network of America, Inc. did not request a hearing on the allegations in the department's October 17, 1991 Notice of Intent to Issue a Stop Order which preceded the Stop Order.

Miscellaneous Orders

• PaineWebber Incorporated - Notice of Intent to Suspend Registration as a Broker-dealer and Investment Adviser and Notice of Intent to Fine Withdrawn

(See description under Stipulation and Agreements)

CRIMINAL MATTERS

• Anthony R. Raucci, Jr. Charged

On November 6, 1991, Anthony R. Raucci, Jr. of Southington, Connecticut was arraigned in Hartford Superior Court on nine counts of first-degree larceny, eight counts of fraudulent sale of securities, eight counts of sale of unregistered securities and failure to register as a broker-dealer. The larceny charges against Raucci, who purportedly did business under various corporate names, including Advisory Services, Vintage Trading Group, Inc., C.B.A. Trading Group, Ltd. and C.B.A., Inc., stemmed from his alleged misappropriation of funds entrusted to him by employees of the Hartford Board of Education for investment in tax sheltered annuities. The securities-related charges were based on Raucci's alleged offer and sale of demand notes or "agreements" for the purpose of financing the importation of Mexican shrimp, the production of latex gloves or gas masks and the financing of a Southington factory. Over \$200,000 was allegedly invested with Raucci in demand notes or "agreements." To date, Raucci has denied the charges.

STATISTICAL SUMMARY

July 1, 1991 - December 31, 1991

<u>REGISTRATION</u>	<u>Securities</u>	<u>Business Opportunities</u>
Total Coordination (Initial & Renewal)	2,457	n/a
- (Investment Co. Renewals 1,458)		n/a
- (All Other Coordinations 999)		
Qualification (Initial)	8	n/a
Qualification (Renewal)	0	n/a
Regulation D Filings	553	n/a
Other Exemption or Exclusion Notices	145	15
Business Opportunity (Initial)	n/a	24
Business Opportunity (Renewal)	n/a	9

LICENSING & BRANCH OFFICEREGISTRATION

	<u>Broker-dealers</u>	<u>Inv. Advisers</u>	<u>Issuers</u>
Firm Initial Registrations			
Processed	103	56	n/a
Firms Registered as of 12/31/91	1,491	660	n/a
Agent Initial Registrations			
Processed	8,501	833	5
Agents Registered as of 12/31/91	50,659	4,266	123
Branch Office Registrations			
Processed	56	21	n/a
Branch Offices Registered as of 12/31/91	490	110	n/a
Examinations Conducted	28	10	3

INVESTIGATIONS

	<u>Securities</u>	<u>Bus. Opportunities</u>
Investigations Opened	57	34
Investigations Closed	53	64
Investigations in Progress as of 12/31/91	87	24
Subpoenas Issued	13	2

ADMINISTRATIVE ENFORCEMENT ACTIONSSecurities

	<u>Number</u>	<u>Parties</u>
Cease and Desist Orders	0	0
Denial, Suspension & Revocation Notices	4	4
Denial, Suspension & Revocation Orders	0	0
Cancellation Notices	0	0
Cancellation Orders	0	0
Notices of Intent to Fine	1	1

<u>ADMINISTRATIVE ENFORCEMENT ACTIONS (Continued)</u>	<u>Number</u>	<u>Parties</u>
<u>Securities</u>		
Orders Imposing Fine	0	0
Notices of Intent to Issue Stop Order	0	0
Stop Orders Issued	0	0
Miscellaneous Orders	1	1
Consent Orders Executed	0	0
Stipulation and Agreements Executed	19	21
New Referrals (Civil)	0	0
New Referrals (Criminal)	5	7
<u>Business Opportunities</u>		
Cease and Desist Orders	5	14
Notices of Intent to Fine	0	0
Orders Imposing Fine	0	0
Notices of Intent to Issue Stop Order	1	1
Stop Orders Issued	1	1
Miscellaneous Orders	0	0
Consent Orders Executed	0	0
Stipulation and Agreements Executed	0	0
New Referrals (Civil)	1	1
New Referrals (Criminal)	0	0
<u>Monetary Sanctions</u>		<u>\$ Assessed</u>
Consent Orders (Securities)		0
Stipulation and Agreements (Securities)		181,590
Stipulation and Agreements (Bus. Opportunities)		0
<b>Total</b>		<b>\$181,590</b>

READER SURVEY

The Securities and Business Investments Division welcomes your comments on the Securities Bulletin. Please take a few moments to complete the following survey and return it to the Department of Banking, Securities and Business Investments Division, 44 Capitol Avenue, Hartford, Connecticut 06106. Your opinions do count.

1. Do you think the Securities Bulletin should be published ( ) less frequently ( ) more frequently ( ) as regularly as it is now.
2. Please rate the Securities Bulletin's coverage of the following areas. Use the following ratings: E (sufficiently covered); M (more coverage necessary) L (less coverage needed)

Enforcement actions	_____
Legislative changes	_____
Department legal opinions	_____
Policy statements	_____
Statistical information	_____
Investor education	_____
Business capital formation	_____
Licensing issues	_____
Blue sky issues	_____
Business opportunities	_____

3. What do you like most about the Securities Bulletin? \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

4. What do you like least about the Securities Bulletin? \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

5. How would you suggest that the Securities Bulletin be improved to make it more responsive to your needs? \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

6. Please check the category that most closely matches your professional status:

Broker-dealer \_\_\_\_\_ Investment adviser \_\_\_\_\_ Agent \_\_\_\_\_  
 Investment adviser agent \_\_\_\_\_ Attorney \_\_\_\_\_ Accountant \_\_\_\_\_  
 Academia \_\_\_\_\_ Government \_\_\_\_\_ Media/Press \_\_\_\_\_ Industry trade  
 group \_\_\_\_\_ Other trade group \_\_\_\_\_ Business  
 owner/entrepreneur \_\_\_\_\_ General public \_\_\_\_\_



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 department. 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

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 (    ) \_\_\_\_\_