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B U L L E T I N

Vol. VI No. 1 March 1992

IN THIS ISSUE:

A Word from the Banking Commissioner 1

Connecticut Adopts Small Corporate Offering Registration Form . . 2

Enforcement Highlights:

- Cease and Desist Orders 10
- Consent Orders 13
- Stipulation and Agreements 16
- Licensing Actions 21
- Miscellaneous Orders 22
- Civil Referrals 22

Filing Exemption for Certain Investment Company Sales Materials . 23

Quarterly Statistical Summary 25

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A WORD FROM THE BANKING COMMISSIONER

Small businesses are a vital part of Connecticut's economy, creating jobs and developing new products or services upon which to build a future. The current recession has been trying for small businesses, and government must do what it can to assist small companies in generating economic growth and keeping our state competitive.

This Securities Bulletin features an order the agency issued on March 23, 1992 prescribing use of the Small Corporate Offering Registration Form ("SCOR") for certain offerings, as a means to ease the capital formation process while at the same time adequately protecting investors.

SCOR was developed by the North American Securities Administrators Association, Inc. and the American Bar Association as a simplified, standardized form for the state registration of offerings made pursuant to Rule 504 of Regulation D. Although Rule 504 offerings are eligible for an exemption from registration under Connecticut's regulatory scheme, issuers may opt to register such offerings to avoid existing federal limitations on public solicitation and securities resale. In addition, absent state registration, the maximum amount which may be raised in a Rule 504 offering is $500,000. State registration of securities through SCOR allows an issuer to raise up to $1,000,000. By simplifying the registration process for small issuers, we hope SCOR may actually cut compliance costs. As an added benefit, SCOR may double as an easy to read prospectus or disclosure document.

The current Bulletin also contains the text of an order the department issued on February 4, 1992 exempting certain investment company sales material from the Connecticut Uniform Securities Act's filing requirements. The order is an attempt to minimize the regulatory burden of such filings on federally registered investment companies where materials are already on file with the Securities and Exchange Commission or a registered securities association. Registered investment companies remain obligated, however, to furnish such materials on request to the agency. In addition, investment companies are not relieved of the need to file with the agency prospectuses, preliminary prospectuses, prospectus supplements, statements of additional information or annual reports intended for prospective investors.

With this issue, the Bulletin begins quarterly publication. We hope that you will find it even more timely and valuable, and we continue to welcome readers' comments.

Ralph M. Shulansky
Banking Commissioner

ORDER PRESCRIBING USE OF THE SMALL CORPORATE OFFERING REGISTRATION FORM (FORM U-7) FOR CERTAIN OFFERINGS

WHEREAS the Commissioner of Banking (the "Commissioner") is charged with the administration of Chapter 662 of the Connecticut General Statutes, The Connecticut Uniform Securities Act (the "Act") and the Regulations thereunder;

WHEREAS Section 36-487(a) of the Act provides that "[a]ny security may be registered by qualification."

WHEREAS Section 36-500(a) of the Act provides, in part, that:

> The commissioner may from time to time make, amend and rescind such ... forms and orders as are necessary to carry out the provisions of this chapter, including ... forms and orders governing registration statements, applications, and reports, and defining any terms, whether or not used in this chapter, insofar as the definitions are not inconsistent with the provisions of this chapter. For the purpose of ... forms and orders, the commissioner may classify securities, persons and matters within his jurisdiction, and prescribe different requirements for different classes.

WHEREAS Section 36-500(c) of the Act provides, in part, that:

> The commissioner may by ... order prescribe (1) The form and content of financial statements required under this chapter; (2) the circumstances under which consolidated financial statements shall be filed; and (3) whether any required financial statements shall be certified by independent or certified public accountants. All financial statements shall be prepared in accordance with generally accepted accounting principles.

WHEREAS Section 36-488(e) of the Act states that "[t]he commissioner may ... permit the omission of any item of information or document from any registration statement."

WHEREAS Section 36-500(b) of the Act provides, in part, that:

> In prescribing forms ... the commissioner may cooperate with the securities administrators of the other states and the Securities and Exchange Commission with a view to effectuating the policy of this chapter to achieve maximum uniformity in the form and content of registration statements, applications and reports wherever practicable.

WHEREAS on April 29, 1989, the North American Securities Administrators Association, Inc. ("NASAA") adopted the Small Corporate Offering Registration Form (Form U-7) (hereafter "SCOR"), NASAA Reports (CCH) ¶ 5057, to facilitate the registration of offerings made pursuant to Securities and Exchange Commission Rule 504, 17 C.F.R. § 230.504, promote uniformity in registration and maintain investor protection standards;

WHEREAS the Commissioner finds that prescribing the use of SCOR for certain offerings to be registered by qualification is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of the Act.

THE COMMISSIONER THEREFORE ORDERS that a security may be registered by qualification using SCOR if all of the following conditions are met:

(1) The person filing the registration statement on SCOR shall be the issuer or one acting on behalf of the issuer, and shall not be (a) a selling security holder; (b) a purchasing underwriter in a firm commitment underwriting; or (c) any person otherwise seeking to register the securities for resale in a secondary distribution.

(2) Solely for purposes of prescribing the use of SCOR, the term "issuer" shall not include: (a) any individual or form of business organization which is not a corporation; (b) any corporation not organized under the laws of any state, territory, or possession of the United States, the District of Columbia or Puerto Rico; (c) any person engaged in mining, petroleum exploration or production, or other extractive industry business; (d) any person subject to the reporting requirements of Section 13 or Section 15 of the Securities Exchange Act of 1934, as amended; and (e) any investment company described in the Investment Company Act of 1940, as amended.

(3) The securities to be registered by means of SCOR shall only consist of debt securities or equity securities. In the case of common stock, the offering price shall equal or exceed five dollars per share, and if the securities to be registered consist of options, warrants or rights for common stock, such five dollar limitation on the price per share shall apply to the exercise price. Where the securities to be registered are convertible into common stock, the conversion price shall be at least five dollars per share.

(4) The issuer shall undertake, in conjunction with the SCOR

registration, to refrain from splitting its common stock or declaring a stock dividend for two years following effectiveness of the SCOR registration under Section 36-487(c) of the Act; provided that nothing in this paragraph shall preclude the issuer from taking such action in connection with a subsequent registered public offering where the prior written consent of the Commissioner is obtained.

(5) The offering to be registered by means of SCOR cannot be a "blind pool" or other offering where the issuer cannot describe the specific business in which it will engage or the property to be acquired.

(6) The aggregate offering price, within or outside Connecticut, of the securities to be registered by means of SCOR shall not exceed $1 million less the aggregate offering price for all securities sold within the twelve months prior to the commencement of, and during, the offering of the securities under Securities and Exchange Commission Rule 504, 17 C.F.R. § 230.504; in reliance on any exemption under section 3(b) of the Securities Act of 1933; or in violation of section 5 of the Securities Act of 1933.

(7) The registrant shall file with the Commissioner as part of its SCOR application a copy of Form D as filed with the Securities and Exchange Commission claiming exemption of the offering from registration under the Securities Act of 1933 pursuant to Rule 504 of Regulation D, 17 C.F.R. § 230.504. Such filing shall be made with the Commissioner at the same time it is made with the Securities and Exchange Commission. In addition, the issuer shall file an executed Form U-1, Form U-2, Form U-2A and the Exhibits required by Form U-7, NASAA Reports (CCH), ¶ 5057, and shall include the fee required by Section 36-488(b) of the Act.

(8) (a) Registration by means of SCOR shall not be available for the securities of any issuer if the issuer or any of its officers, directors, 10% stockholders, promoters or any selling agents of the securities to be offered, or any officer, director or partner of the selling agent:

(1) Has filed a registration statement that is the subject of a currently effective registration stop order entered pursuant to the securities laws of any state within five years prior to the filing of the SCOR application for registration;

(2) Has been convicted within five years prior to the filing of the SCOR registration application of any felony or misdemeanor in connection with the offer, purchase or sale of any security, or any felony or misdemeanor in connection

with the offer, purchase or sale of any security, or any felony involving fraud or deceit, including, without limitation, forgery, embezzlement, obtaining money under false pretenses, larceny, or conspiracy to defraud;

(3) (i) Is currently subject to any state administrative enforcement order or judgment entered by the securities administrator of a state within five years prior to the filing of the SCOR application for registration, or (ii) is subject to any state administrative enforcement order or judgment in which fraud or deceit, including, without limitation, making untrue statements of material fact and omitting to state material facts, was found and the order or judgment was entered or obtained by the state within five years prior to the filing of the SCOR application for registration;

(4) Is subject to any state administrative enforcement order or judgment prohibiting, denying or revoking the use of any exemption from registration in connection with the offer, purchase or sale of securities for which registration is sought by means of SCOR;

(5) Is currently subject to any order, judgment or decree which (i) was entered within five years prior to the filing of the SCOR application for registration by any court of competent jurisdiction and (ii) temporarily or preliminarily restricts or enjoins, or permanently restrains or enjoins, such party from engaging in or continuing any conduct or practice in connection with the purchase or sale of any security or involving the making of any false filing with any state.

(b) The prohibitions in subparagraphs (a)(1) through (a)(3) and (a)(5) of this paragraph shall not apply if the person subject to the disqualification is duly licensed or registered to conduct securities related business in the state where the administrative order or judgment was entered against such person or if the broker-dealer employing such party is licensed or registered in this state and the Form B-D filed with this state discloses such order, conviction, judgment or decree relating to such person. No person disqualified under paragraph 8 of this Order may act in a capacity other than that for which the person is licensed or registered.

(c) The Commissioner may in his discretion waive any disqualification caused by this paragraph if the state securities administrator or agency of the state which created

the basis for the disqualification determines, upon a showing of good cause, that it is not necessary under the circumstances that registration be denied.

(9) Pursuant to Sections 36-488(g) and 36-500(a) of the Act, the Commissioner further orders that, if the proposed business of the issuer requires a minimum amount of proceeds to commence or proceed with the business in the manner proposed, there shall be established an escrow with a bank, savings and loan association or other similar depository institution acting as independent escrow agent with which shall be immediately deposited all proceeds received from investors until the minimum amount of proceeds has been raised. The date at which the funds will be returned by the escrow agent if the minimum proceeds are not raised shall not be later than one year from the date of effectiveness of the SCOR registration in this state.

(10) The issuer shall prepare and file the following financial statements in connection with its SCOR application in lieu of the documents required by Section 36-487(b)(16) of the Act:

(a) For the issuer and its consolidated subsidiaries, a balance sheet as of the end of the most recent fiscal year. If the issuer has been existence for less than one fiscal year, the issuer shall file a balance sheet as of the date within 135 days of the filing of the SCOR registration statement in this state. If the first effective date of state registration, as set forth on the cover page of the SCOR application, is within 45 days following the end of the issuer's fiscal year and financial statements for the most recent fiscal year are not available, the balance sheet may be as of the end of the preceding fiscal year and shall include an additional balance sheet as of an interim date at least as current as the end of the issuer's third fiscal quarter of the most recently completed fiscal year.

(b) For the issuer, its consolidated subsidiaries and predecessors, statements of income and cash flow and statements of changes in stockholders' equity for the last fiscal year preceding the date of the most recent balance sheet filed pursuant to subparagraph (a) of this paragraph, or such shorter period as the issuer, including any predecessors, has been in existence.

(c) Statements of income and cash flow for any interim period between the latest reviewed or audited balance sheet and the date of the most recent interim balance sheet being filed.

(d) If, since the beginning of its last fiscal year, the issuer has acquired another business, the issuer shall file a pro forma combined balance sheet as of the end of the fiscal year. The issuer shall file a pro forma combined statement of income as if the acquisition had occurred at the beginning of the issuer's last fiscal year if any of the following apply: (1) the investments in, and advances to, the acquired business by the issuer and its subsidiaries, other than the acquired business, exceed 20% of the issuer's assets on its consolidated balance sheet at the end of the issuer's last fiscal year; (2) the proportionate share of the total assets, after intercompany elimination, of the acquired business held by the issuer and its subsidiaries, other than the acquired business, exceeds 20% of the assets on the consolidated balance sheet; or (3) the equity of the issuer and its subsidiaries, other than the acquired business, in income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principles, of the acquired business exceeds 20% of such income of the issuer and its consolidated subsidiaries for the issuer's last fiscal year.

(e) Financial statements shall be prepared in accordance with generally accepted accounting principles. If the issuer has not conducted significant operations, statements of receipts and disbursements shall be included in lieu of statements of income.

(f) Interim financial statements may be unaudited. All other financial statements shall be audited by independent certified public accountants; provided, that if each of the following conditions are met, such financial statements, in lieu of being audited, may be reviewed by independent certified public accountants in accordance with the Accounting and Review Service Standards promulgated by the American Institute of Certified Public Accountants: (1) the issuer shall not have previously sold securities by means of an offering involving the general solicitation of prospective investors by means of advertising, mass mailings, public meetings, "cold call" telephone solicitations or any other method directed towards the public; (2) the issuer shall not previously have been required under federal or state securities laws to provide audited financial statements in connection with any sale of its securities; (3) the aggregate amount of all previous sales of securities by the issuer, excluding debt financings with banks and similar commercial lenders, shall not exceed $1 million and (d) the amount of the present offering shall

not exceed $500,000.

(g) Financial statements shall reflect all stock splits, including reverse stock splits, stock dividends and recapitalizations, even if they have occurred since the date of the financial statements.

(11) Once the Form U-7 is completed and filed, and the SCOR registration is declared effective by the Commissioner pursuant to Section 36-487(c) of the Act, the issuer shall send or give to each offeree of the security a copy of Form U-7, excluding instructions, which shall serve as the prospectus for purposes of Section 36-487(d) of the Act and shall be provided to each offeree before or concurrently with (a) the first written offer made to him, otherwise than by means of a public advertisement, by or for the account of the issuer, (b) the confirmation of any sale made by or for the account of such person, (c) payment pursuant to any such sale, or (d) delivery of the security pursuant to any such sale, whichever first occurs.

(12) Pursuant to Section 36-487(b)(12) of the Act, the issuer shall file, in conjunction with its SCOR application, a copy of any prospectus, pamphlet, circular, form letter, advertisement or other sales literature intended as of the effective date of the registration to be used in connection with the offering. Any written announcement of the offering shall contain no more than the following: (a) the name of the issuer; (b) a characterization of the issuer as indicated on the cover page of the SCOR registration statement; (c) the address and telephone number of the issuer; (d) a brief indication, in ten words or less, of the business or proposed business, of the issuer; (e) the number and type of securities to be offered and the offering price per security; (f) the name, address and telephone number of any selling agent authorized to sell the securities; (g) a statement that the announcement does not constitute an offer to sell or solicitation of an offer to purchase and that any such offer must be made by official prospectus or disclosure document; (h) how a copy of the prospectus or disclosure document may be obtained; (i) the issuer's corporate logo; and (j) clip and return coupons, if any, use of which would facilitate the provision of a copy of the prospectus or disclosure document to prospective purchasers.

(13) Nothing in this Order shall relieve an issuer using SCOR from the post-effective filing requirements of the Act and the Regulations thereunder or from its obligation to update information filed with the Commissioner. Nothing in this Order shall preclude the Commissioner from requesting additional

information pursuant to Section 36-487(b)(17) of the Act from an issuer seeking to register using SCOR.

THE COMMISSIONER FURTHER ORDERS, pursuant to Section 36-500-32(a)(6) of the Regulations of Connecticut State Agencies, as presently constituted, that an issuer defined in paragraph (2) of this Order which elects to rely on the exemption from registration in Section 36-490(b)(9)(B) of the Act and Section 36-500-22(b)(9)(B)(ii) of the Regulations, for offerings exempt under Rule 504 of Regulation D, 17 C.F.R. § 230.504, may use Form U-7 to satisfy the written disclosure and financial statement requirements in Section 36-500-22(b)(9)(C)(iii)(aa) of the Regulations.

Ralph M. Shulansky
Banking Commissioner
March 23, 1992

ENFORCEMENT HIGHLIGHTS

ADMINISTRATIVE SANCTIONS

Cease and Desist Orders

- **Domestic Recovery Oil Partners II Joint Venture, Domestic Recovery Oil Partners III & IV Joint Venture, Domestic Recovery Oil Partners, Inc., Steven Glenn Stafford and Lincoln Thomas Tedeschi**

On January 7, 1992, the Banking Commissioner issued a cease and desist order against Domestic Recovery Oil Partners II Joint Venture ("DROP II Joint Venture"), of Breckenridge, Texas and Marlborough, Connecticut; Domestic Recovery Oil Partners III & IV Joint Venture ("DROP III and IV Joint Venture") of Odessa, Texas and Marlborough, Connecticut; Domestic Recovery Oil Partners, Inc. ("DROP, Inc.") of Breckenridge, Texas, Odessa, Texas and Marlborough, Connecticut; Steven Glenn Stafford, chief executive officer of DROP, Inc. and a sales representative of both DROP II Joint Venture and DROP III and IV Joint Venture; and Lincoln Thomas Tedeschi, an officer of DROP, Inc. and a sales representative of the two joint ventures. DROP, Inc. was the joint venture manager of DROP II Joint Venture and DROP III and IV Joint Venture.

The Order alleged that from approximately December 1990 to August 1991, the respondents sold unregistered securities in the form of joint venture interests in violation of Section 36-485 of the Connecticut Uniform Securities Act; that Stafford and Tedeschi transacted business as unregistered agents of the issuer joint ventures in violation of Section 36-474(a) of the Act; and that the joint ventures employed Stafford and Tedeschi as unregistered agents in violation of Section 36-474(b) of the Act.

The Order also alleged that the respondents engaged in fraudulent conduct prohibited by Section 36-472 of the Act in that 1) contrary to representations made in the DROP II offering memorandum, the DROP II offering did not meet the terms and conditions of Regulation D; 2) the DROP II offering memorandum failed to disclose that commissions totaling at least $17,325 would be paid to Stafford and Tedeschi from the proceeds of the offering; 3) the DROP III and IV offering memorandum falsely stated that all wells had been certified by the Texas Railroad Commission to have oil in the hole and to be potentially

commercially producible wells; 4) the DROP III and IV offering memorandum failed to disclose that commissions would be paid from the offering proceeds when at least $7,500 was paid to Stafford and Tedeschi for selling joint venture interests; 5) while the DROP III and IV offering memorandum stated that an investment in that joint venture was protected by Domestic Recovery Oil Partners Indemnity Corporation a/k/a D.R.O.P.I.C., it failed to disclose that monies purportedly invested on behalf of D.R.O.P.I.C. were actually invested through a securities account under the exclusive control of Tedeschi and that only a small fraction of each investment in DROP III and IV would be protected by the D.R.O.P.I.C. "account"; 6) the offering memorandum for DROP III and IV failed to disclose that Tedeschi, a broker-dealer agent of Commonwealth Equity Services, Inc., would earn commissions on investments purportedly made on behalf of D.R.O.P.I.C.; 7) the offering materials for DROP III and IV misrepresented the corporate status of D.R.O.P.I.C.; and 8) investors who, at Tedeschi's behest, exchanged their interests in DROP III and IV for interests in DROP II never received any offering memorandum for DROP II.

The Order also alleged that Tedeschi engaged in conduct prohibited by Section 36-472 of the Act in that 1) he sold unsuitable investments in the two joint ventures to Connecticut residents 2) while employed as an agent of Commonwealth Equity Services, Inc. he failed to tell investors that he was not authorized by his employing broker-dealer to offer or sell interests in the joint ventures; and 3) he failed to advise investors that the joint venture transactions would not be recorded on the books of his employing broker-dealer.

Since neither of the joint ventures nor Domestic Recovery Oil Partners, Inc. requested a hearing on the allegations in the Order, the Order became permanent as to those entities on January 23, 1992. On February 28, 1992 and March 17, 1992, respectively, the department entered consent orders regarding respondents Stafford and Tedeschi in lieu of conducting an adjudicative hearing on the allegations concerning them (<u>see</u> description under Consent Orders, <u>infra</u>).

<u>International Marketing Services, Inc. a/k/a IMS/Wedding Guide Limited; Edward Thomas Clark and John Starcevich</u>

On January 17, 1992, the Banking Commissioner issued a cease and desist order against International Marketing Services, Inc. a/k/a IMS/Wedding Guide Limited, now or formerly of 8795 Ralston Road, Suite 111, Arvada, Colorado; Edward Thomas Clark, its officer, and John Starcevich, its National Sales Manager.

International Marketing Services, Inc. purportedly is or was in the business of providing services concerning the publishing and marketing of a publication entitled "The Wedding Guide."

The Order alleged that in 1990, International Marketing Services, Inc., through Clark and Starcevich, offered and sold Connecticut residents products and services to enable those residents to start a business marketing The Wedding Guide. The Order also alleged that the corporation, through Clark, represented to purchasers or potential purchasers that it would provide support, training and marketing materials with respect to the marketing of the publication. In addition, the Order claimed that the respondents violated Sections 36-505(a), 36-508(a) and 36-510(1) of the Connecticut Business Opportunity Investment Act by offering and selling 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 Clark nor the corporation requested a hearing within the prescribed time period, the Order became permanent as to each of them on February 7, 1992. Similarly, Starcevich not having requested a hearing, the Order became permanent as to him on February 18, 1992.

- **Margrove Limited, Inc., Joseph S. Colabella, Steven K. Frankl and Richard C. Steg**

On February 13, 1992, the Banking Commissioner issued a cease and desist order against Margrove Limited, Inc., a Delaware corporation with a place of business in Farmington, Connecticut; Joseph S. Colabella, a representative of Margrove Limited, Inc.; Steven K. Frankl, an officer and shareholder of Margrove Limited, Inc.; and Richard C. Steg, a shareholder and officer of Margrove, Inc. The Order alleged that, in April 1991, at a New Haven, Connecticut trade show, Margrove Limited, Inc., through Colabella, Frankl and Steg, offered to the general public an investment program promising at least a twenty percent rate of return which was guaranteed risk free. The Commissioner alleged that the respondents violated Section 36-485 of the Connecticut Uniform Securities Act since the offering was not registered with the Commissioner; that Colabella transacted business as an unregistered agent in contravention of Section 36-474(a) of the Act; and that Margrove Limited, Inc. employed unregistered agents in violation of Section 36-474(b) of the Act. The Commissioner also alleged that the respondents violated the antifraud prohibition in Section 36-472 of the Act by failing to disclose any risks associated with the investment; how a minimum twenty percent annual return could be guaranteed; the

unregistered status of the investment program under the Act; and Colabella's unregistered status as an agent. The Order became permanent as to Margrove Limited, Inc. and Richard C. Steg on February 28, 1992, and permanent as to Steven K. Frankl on March 4, 1992, since none of those respondents requested a hearing within the prescribed time period. A hearing on the allegations concerning Mr. Colabella has been scheduled.

Consent Orders

Steven Glenn Stafford

On February 28, 1992, the Banking Commissioner entered a Consent Order with respect to Steven Glenn Stafford. The Consent Order followed a January 7, 1992 Order to Cease and Desist issued against Mr. Stafford in conjunction with his activities involving Domestic Recovery Oil Partners II Joint Venture; Domestic Recovery Oil Partners III & IV Joint Venture; and Domestic Recovery Oil Partners, Inc. (see, description under Cease and Desist Orders, supra).

Pursuant to the Consent Order, respondent Stafford agreed to refrain for four years from representing a broker-dealer or issuer in effecting or attempting to effect securities purchases or sales, and from transacting business as a broker-dealer, investment adviser or investment adviser agent. The Consent Order also precluded respondent Stafford, during such four year period, from directly or indirectly soliciting or accepting funds for investment purposes from public or private investors within or from Connecticut without consulting with legal counsel on securities law compliance and notifying the Securities and Business Investments Division of such proposed activities at least 30 days prior to their commencement. In addition, the Consent Order precluded Mr. Stafford for four years from 1) acting as a finder for compensation, splitting commissions or receiving referral fees in connection with the offer, sale or purchase of securities or the rendering of investment advice on securities; and 2) acting in a proprietary or supervisory capacity with respect to any broker-dealer or investment adviser transacting business in Connecticut.

Notwithstanding the above, however, the Consent Order allowed Mr. Stafford, after thirty months, to apply for registration as an agent of an issuer, or, in a non-supervisory and non-proprietary capacity, as an agent of a broker-dealer or investment adviser, if he fulfilled regulatory requirements and the department permitted such registration in its discretion. The Consent Order provided Mr. Stafford with notice that, in exercising such discretion, the department could consider such non-exclusive factors as: the existence of oral or written

securities related complaints against respondent Stafford, sanctions imposed by any judicial or administrative authority affecting Mr. Stafford's ability to engage in the offer or sale of securities and/or the rendering of investment advice on securities, the legality of Mr. Stafford's planned course of business as reflected in any written opinion prepared by legal counsel to Mr. Stafford, and the furnishing of a sworn affidavit by Mr. Stafford concerning his compliance with the terms and conditions of the Consent Order.

In addition, the Consent Order contemplated that if Mr. Stafford did apply for registration in a non-supervisory capacity (whether after 30 months or four years), he would deliver a written statement from his employing broker-dealer or investment adviser confirming that he would be subject to on-site supervision, that the office from which Mr. Stafford would work would be either the main office or a registered branch office and that the employing broker-dealer or investment adviser had received a copy of the Consent Order.

The Consent Order also provided that if, after four years, Mr. Stafford were to apply for registration in a supervisory capacity, the department could prescribe such additional testing and qualification requirements as it deemed necessary in the public interest. The Consent Order also stated that, at the expiration of four years (or 30 months, as the case may be), unless written permission from the department were obtained, Mr. Stafford would represent only one broker-dealer, investment adviser or securities issuer at any one time. Finally, the Consent Order required Mr. Stafford, for four years, to notify the Division in writing of any securities complaints relating to him or to any entity in which he had a controlling interest.

- **Lincoln Thomas Tedeschi**

On March 17, 1992, the Banking Commissioner entered a Consent Order with respect to Lincoln Thomas Tedeschi. The Consent Order followed a January 7, 1992 Order to Cease and Desist issued against Mr. Tedeschi in conjunction with his activities involving Domestic Recovery Oil Partners II Joint Venture; Domestic Recovery Oil Partners III & IV Joint Venture; and Domestic Recovery Oil Partners, Inc. (see, description under Cease and Desist Orders, supra).

Pursuant to the Consent Order, respondent Tedeschi agreed to refrain for ten years from representing a broker-dealer or issuer in effecting or attempting to effect securities purchases or sales, and from transacting business as a broker-dealer,

investment adviser or investment adviser agent. The Consent Order also precluded respondent Tedeschi, during such ten year period, from directly or indirectly soliciting or accepting funds for investment purposes from public or private investors within or from Connecticut without consulting with legal counsel on securities law compliance and notifying the Securities and Business Investments Division of such proposed activities at least 30 days prior to their commencement. In addition, the Consent Order precluded Mr. Tedeschi for ten years from 1) acting as a finder for compensation, splitting commissions or receiving referral fees in connection with the offer, sale or purchase of securities or the rendering of investment advice on securities; and 2) acting in a proprietary or supervisory capacity with respect to any broker-dealer or investment adviser transacting business in Connecticut.

Notwithstanding the above, however, the Consent Order allowed Mr. Tedeschi, after seven years, to apply for registration as an agent of an issuer, or, in a non-supervisory and non-proprietary capacity, as an agent of a broker-dealer or investment adviser, if he fulfilled regulatory requirements and the department permitted such registration in its discretion. The Consent Order provided Mr. Tedeschi with notice that, in exercising such discretion, the department could consider such non-exclusive factors as: the existence of oral or written securities related complaints against respondent Tedeschi, sanctions imposed by any judicial or administrative authority affecting Mr. Tedeschi's ability to engage in the offer or sale of securities and/or the rendering of investment advice on securities, the legality of Mr. Tedeschi's planned course of business as reflected in any written opinion prepared by legal counsel to Mr. Tedeschi, and the furnishing of a sworn affidavit by Mr. Tedeschi concerning his compliance with the terms and conditions of the Consent Order.

In addition, the Consent Order contemplated that if Mr. Tedeschi did apply for registration in a non-supervisory capacity (whether after seven or ten years), he would deliver a written statement from his employing broker-dealer or investment adviser confirming that he would be subject to on-site supervision, that the office from which Mr. Tedeschi would work would be either the main office or a registered branch office and that the employing broker-dealer or investment adviser had received a copy of the Consent Order.

The Consent Order also provided that if, after seven years, Mr. Tedeschi were to apply for registration in a supervisory capacity, the department could prescribe such additional testing

and qualification requirements as it deemed necessary in the public interest. The Consent Order also stated that, at the expiration of seven or ten years (as the case may be), unless written permission from the department were obtained, Mr. Tedeschi would represent only one broker-dealer, investment adviser or securities issuer at any one time. Finally, the Consent Order required Mr. Tedeschi, for ten years, to notify the Division in writing of any securities complaints relating to him or to any entity in which he had a controlling interest.

Stipulation and Agreements

- **Copley Fund, Inc.**

On January 13, 1992, the Banking Commissioner entered into a Stipulation and Agreement with Copley Fund, Inc. f/k/a Copley Tax Managed Fund, Inc. of 109 Howe Street, Fall River, Massachusetts. The Stipulation and Agreement followed a Securities and Business Investments Division investigation into the activities of both the Fund, an investment company, and Copley Financial Services Corporation, investment adviser to the Fund. That investigation uncovered evidence that from at least 1986 through 1989, Copley Fund, Inc. offered and sold its unregistered non-exempt shares to Connecticut residents in alleged violation of Section 36-485 of the Connecticut Uniform Securities Act and with knowledge that such offers and sales could result in potential liability under the Act.

Pursuant to the Stipulation and Agreement, the Fund agreed to 1) cease and desist from regulatory violations; 2) remit $8,000 to the agency representing partial reimbursement for back registration fees as well as penalties and investigative costs; and 3) register its securities prior to making offers or sales in Connecticut other than in conjunction with the reinvestment of dividends.

- **SoundView Financial Group, Inc.**

On January 13, 1992, the Banking Commissioner entered into a Stipulation and Agreement with SoundView Financial Group, Inc., a broker-dealer located at 56 Top Gallant Road, Stamford, Connecticut. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that, between August 1990 and September 1991, 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 review and modify its supervisory and compliance procedures to prevent and detect future regulatory violations and to reimburse the agency $4,000 for the agency's investigative costs.

- **IDS Financial Services, Incorporated**

On January 14, 1992, the Banking Commissioner entered into a Stipulation and Agreement with IDS Financial Services, Incorporated of IDS Tower 10, Minneapolis, Minnesota. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that, between June 1989 and August 1990, the firm had employed and paid compensation to an unregistered investment adviser agent in alleged violation of Section 36-474(c) of the Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the firm agreed to review and modify its supervisory and compliance procedures to detect and prevent regulatory violations and to reimburse the Division $500 for the Division's investigative costs.

- **Baldwin Brothers, Incorporated**

On January 17, 1992, the Banking Commissioner entered into a Stipulation and Agreement with Baldwin Brothers, Incorporated of 388 County Street, New Bedford, Massachusetts. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that, between July 1984 and January 1991, the firm had transacted business as an investment adviser absent registration under the Connecticut Uniform Securities Act and had employed unregistered investment adviser agents, all in alleged violation of Section 36-474(c) of the 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) pay a $3,000 fine to the agency; 3) reimburse the department for the cost, not to exceed $15,000, of an examination to be conducted within eighteen months following the Commissioner's execution of the Stipulation and Agreement; and 4) pay to the department the sum of $880 representing back uncollected registration fees.

- **Clark Capital Management Group, Incorporated**

On February 19, 1992, the Banking Commissioner entered into a

Stipulation and Agreement with Clark Capital Management Group, Incorporated of Mellon Bank Center, 1735 Market Street, Philadelphia, Pennsylvania. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that, between October 1987 and September 1991, the firm had transacted business as an investment adviser absent registration under the Connecticut Uniform Securities Act and had employed unregistered investment adviser agents, all in alleged violation of Section 36-474(c) of the Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) review and modify its supervisory and compliance procedures to detect and prevent regulatory violations; 2) pay a $1,500 fine to the agency; 3) pay to the department the sum of $1,160 representing back uncollected registration fees and 4) reimburse the Division $2,000 for the Division's investigative costs.

- **Prudential Securities Incorporated**

On February 20, 1992, the Banking Commissioner entered into a Stipulation and Agreement with Prudential Securities Incorporated of One Seaport Plaza, New York, New York. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that, between 1986 and the date of the Stipulation and Agreement, the firm had employed and paid compensation to unregistered investment adviser agents in alleged violation of Section 36-474(c) of the Connecticut Uniform Securities Act. The Division's investigation had also uncovered evidence that the firm had paid commissions to third parties who referred Connecticut residents to the firm and who were not registered under the Act.

Pursuant to the Stipulation and Agreement, the firm agreed to 1) review and modify, as necessary and appropriate, its supervisory procedures to detect and prevent regulatory violations, and to educate its sales force in writing concerning the Act's registration requirements; 2) pay to the agency the sum of $60,000 representing a civil penalty, back registration fees and Division investigative costs; and 3) reimburse the department up to $3,000 for the cost of an examination to be conducted within eighteen months following the Commissioner's execution of the Stipulation and Agreement.

- **Chesapeake Securities Research Corporation**

On February 27, 1992, the Banking Commissioner entered into a

Stipulation and Agreement with Chesapeake Securities Research Corporation of 40 West Chesapeake Avenue, Suite 211, Townson, Maryland. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which uncovered evidence that the firm had transacted business as an unregistered broker-dealer in alleged violation of Section 36-474(a) of the Connecticut Uniform Securities Act.

Pursuant to the Stipulation and Agreement, the firm agreed to pay the department a $3,500 fine and to review and revise its supervisory and compliance procedures as necessary to prevent future regulatory violations.

- **Reiman Group, Ltd., Stephen L. Vecchitto, Thomas F. Shelto and Michael C. Bellobuono**

On February 28, 1992, the Banking Commissioner entered into a Stipulation and Agreement with Reiman Group, Ltd. ("RGL"), corporate general partner of Reiman East Limited Partnership; Stephen L. Vecchitto, a Connecticut accountant as well as secretary and treasurer of RGL; Thomas F. Shelto, vice president of RGL; and Michael C. Bellobuono, a Connecticut attorney and president of RGL.

The Securities and Business Investments Division investigation which prompted the Stipulation and Agreement revealed indications that, in or about December, 1988, the individual parties offered and sold real estate limited partnership interests to Connecticut residents absent registration under Section 36-485 of the Connecticut Uniform Securities Act and that the offering materials provided to investors were allegedly deficient. Specifically, while the offering materials for the partnership represented that RGL would guarantee investors a return, investors purportedly were not provided with any financial statements for RGL. In addition, the Division's investigation suggested that the financial condition of RGL was insufficient at the time of the offering to support the guarantee and that the offering made use of marketing materials that were materially inconsistent with the terms of the offering circular. Indications also existed that the offering materials failed to disclose that a special reserve to be funded by capital contributions from the offering (which reserve was intended to finance, among other things, the guaranteed return) was not funded as required by the offering materials and that the failure to establish the special reserve was not disclosed in the offering materials.

RGL, Bellobuono, Shelto and Vecchitto neither admitted nor denied that the alleged conduct gave rise to a violation of the

Act or the Regulations thereunder. Pursuant to the Stipulation and Agreement, RGL, Bellobuono, Vecchitto and Shelto agreed to refrain for four years from organizing, sponsoring, promoting, acting as general partner for, or offering or selling securities of, any direct participation program or limited partnership in Connecticut. In addition, RGL agreed to pay limited partnership interest holders accrued cash distributions totaling $64,050. RGL also agreed to reimburse the Division $10,000 for its investigative costs.

In addition, the Stipulation and Agreement provided that Vecchitto would refrain for three years from appearing or practicing before the department as an accountant with respect to securities-related matters within the scope of the Connecticut Uniform Securities Act. The Stipulation and Agreement contained a proviso allowing Mr. Vecchitto to apply in writing to have the restriction removed after 18 months upon a showing of good cause. A similar clause and proviso appeared in the Stipulation and Agreement with respect to the securities-related legal activities of Mr. Bellobuono.

- **Laser's Edge, Inc.**

On March 25, 1992, the Banking Commissioner entered into a Stipulation and Agreement with Laser's Edge, Inc. of 201 South 23rd Street, Fairfield, Iowa and formerly of 800 West Burlington, Fairfield, Iowa. The Stipulation and Agreement followed a Securities and Business Investments Division investigation which revealed indications that from approximately 1988 through 1990, the corporation sold unregistered business opportunities consisting of distributorships which specialized in remanufactured used toner cartridges for laser printers and copiers. The Commissioner alleged that such unregistered activity violated Sections 36-505(a), 36-508(a) and 36-510(1) of the Connecticut Business Opportunity Investment Act. The Commissioner also alleged that the corporation violated Section 36-506(a) of that Act by not providing purchasers with the statutorily required disclosure document.

Without admitting or denying the Commissioner's allegations, Laser's Edge, Inc. agreed to 1) refrain from any further offers or sales of business opportunities constituting or which would constitute violations of the Act; 2) provide written notice of private civil remedies under the Act to those individuals and entities who were current licensees of Laser's Edge, Inc. and to whom distributorships were sold from 1988 to 1990 in alleged violation of the Act; 3) notify the agency in writing at least thirty days prior to the commencement of any activity falling

within the scope of the Act; and 4) remit $2,000 to the agency for reimbursement of Division investigative costs, back registration fees and an administrative fine.

Licensing Actions

- **Kochcapital, Inc. - Broker-dealer Registration Revoked**

  On January 7, 1992, the Banking Commissioner ordered that the broker-dealer registration of Kochcapital, Inc., now or formerly of 35 184th Avenue, S.E., Bellevue, Washington, be revoked. The Commissioner based the revocation 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 had become final on February 27, 1991. Kochcapital did not contest the Commissioner's October 15, 1991 Notice of Intent to Revoke registration which preceded the revocation order.

- **Steven Richard Cloyes - Notice of Intent to Revoke Agent Registration Issued; Agent Registration Summarily Suspended**

  On March 25, 1992, the Banking Commissioner issued a Notice of Intent to Revoke the registration of Steven Richard Cloyes as a broker-dealer agent of Robert Todd Financial Corporation in Wilton, Connecticut. On the same day, the Commissioner ordered that Cloyes' agent registration be summarily suspended under Section 36-484 of the Connecticut Uniform Securities Act. The Commissioner's action was predicated on Mr. Cloyes' alleged withholding of material documents and information requested during the course of a department investigation into Mr. Cloyes' activities and during an examination of the books and records of Robert Todd Financial Corporation's Wilton office. Mr. Cloyes was provided with an opportunity for a hearing on both the Notice of Intent to Revoke registration and the summary order.

  On March 31, 1992, the Commissioner issued an order withdrawing the Notice of Intent to Revoke and the Summary Suspension Order issued against Mr. Cloyes. The withdrawal order was accompanied by a finding that on March 27 and 30, 1992, Mr. Cloyes provided the requested information and documents to the Commissioner's representatives. The withdrawal order provided, however that it was entered without prejudice to the right of the Commissioner to institute new enforcement proceedings against Mr. Cloyes based on allegations not stated in the Notice of Intent to Revoke or the Summary Suspension Order or if the Commissioner

should later determinate that any information or documents originally sought by the agency had been removed, altered, destroyed or otherwise not provided to the Commissioner's representatives on March 27 and 30, 1992.

Miscellaneous Orders

- **Steven Richard Cloyes - Agency Withdraws Notice of Intent to Revoke Agent Registration and Summary Suspension Order**

  (See description under Licensing Actions, supra)

CIVIL REFERRALS

- **Michael Alite, Richard Thomas Burke, Jordan Jay Hirsch, David Henry Muschweck a/k/a David Muschweck, John Scott Tournour and Ronald Leslie Wheeler, Jr.**

  On January 13, 1992, the Commissioner referred a matter involving Michael Alite, Richard Thomas Burke, Jordan Jay Hirsch, David Henry Muschweck a/k/a David Muschweck, John Scott Tournour and Ronald Leslie Wheeler, Jr. to the Office of the Attorney General for collection. Alite, Burke, Hirsch, Muschweck, Tournour and Wheeler had been the subject of an October 13, 1989 Notice of Intent to Fine based upon their alleged violations of the Connecticut Uniform Securities Act while employed at branch offices of J.T. Moran Financial Corporation in Wethersfield, Connecticut and Garden City, New York.

  On June 21, 1990, a hearing was held on the allegations in the Notice of Intent to Fine. None of the six respondents appeared at the hearing. On July 31, 1991, based on the hearing record, the Commissioner ordered that civil penalties be imposed against the six respondents as follows: Alite, $5,700; Burke, $1,500; Hirsch, $1,500; Muschweck, $1,500; Tournour, $1,500 and Wheeler, $4,275. Although the respondents were given until September 14, 1991 to make payment, they failed to do so.

ORDER EXEMPTING CERTAIN INVESTMENT COMPANY SALES LITERATURE AND SALES REPORTS FROM REGULATORY FILING REQUIREMENTS

1) The Banking Commissioner (the "Commissioner") is charged with the administration of Chapter 662 of the Connecticut General Statutes, The Connecticut Uniform Securities Act (the "Act");

2) The Commissioner is also charged with the administration of Sections 36-500-1 et seq. of the Regulations of Connecticut State Agencies promulgated under the Act (the "Regulations");

3) Section 36-500(a) of the Act provides that:

> The commissioner may from time to time make, amend and rescind such ... orders as are necessary to carry out the provisions of this chapter, including ... orders governing registration statements, applications and reports, and defining any terms, whether or not used in this chapter, insofar as the definitions are not inconsistent with the provisions of this chapter. For the purpose of ... orders, the commissioner may classify securities, persons and matters within his jurisdiction and prescribe different requirements for different classes.

4) Section 36-491 of the Act provides that:

> The commissioner may by regulation or order require the filing of any prospectus, pamphlet, circular, form letter, advertisement or other sales literature or advertising communication addressed or intended for distribution to prospective investors, including clients or prospective clients of an investment adviser unless the security or transaction is exempted by subsections (a) or (b) of section 36-490, except for transactions exempted by subdivision (12) of subsection (b) of said section.

5) Section 36-500-23(a) of the Regulations states that:

> Any prospectus, pamphlet, circular, form letter, advertisement or other sales literature or advertising communication addressed or intended for distribution to prospective investors shall be filed with the commissioner unless the security or transaction, other than a transaction exempted by section 36-490(b)(12) of the Act, is exempted by section 36-490 of the Act and the terms of the exemption do not require any such filing.

6) Section 36-500-17-1(d)(2) of the Regulations states that:

> When a registration statement covering investment company

shares is effective: ... The person filing the registration statement shall file with the commissioner, 60 days following the close of the issuer's fiscal year, a report of the aggregate sales price of the shares of each class sold in the State of Connecticut during the fiscal year.

7) Section 36-500-32(a)(6) of the Regulations provides that: "The commissioner may exempt a person, security or transaction from a specified provision of these Regulations."

8) The Commissioner finds that the issuance of this order is necessary and appropriate in the public interest and for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of the Act.

9) Pursuant to Section 36-500 of the Act and Section 36-500-32(a) of the Regulations, the Commissioner therefore orders that pamphlets, circulars, form letters, advertisements or other sales literature addressed or intended for distribution to prospective investors in connection with a public offering of securities issued by an open-end company, unit investment trust or face amount certificate company registered under the Investment Company Act of 1940, 15 U.S.C. § 80a-1 et seq., need not be filed pursuant to Section 36-500-23(a) of the Regulations absent a request by the Commissioner if such materials are filed with the Securities and Exchange Commission pursuant to Section 24(b) of the Investment Company Act of 1940 or with a national securities association registered under Section 15A of the Securities Exchange Act of 1934 in accordance with Securities and Exchange Commission Rule 24b-3, 17 C.F.R. § 270.24b-3. Nothing in this order shall exempt from the filing requirements of Section 36-500-23(a) of the Regulations any prospectus, preliminary prospectus, prospectus supplement, statement of additional information or annual report addressed or intended for distribution to prospective investors of investment company securities.

10) Pursuant to Section 36-500 of the Act and Section 36-500-32(a)(6) of the Regulations, the Commissioner further orders that sales reports concerning face-amount certificate companies, unit investment trusts and open-end management companies as defined in Sections 4(1), 4(2) and 5(a)(1) of the Investment Company Act of 1940, shall be exempt from the filing requirement in Section 36-500-17-1(d)(2) of the Regulations absent a request by the Commissioner.

Ralph M. Shulansky
Banking Commissioner
February 4, 1992

STATISTICAL SUMMARY

January 1, 1992 - March 31, 1992

REGISTRATION	Securities	Business Opportunities
Total Coordination (Initial & Renewal)	1,359	n/a
- (Investment Co. Renewals 712)		n/a
- (All Other Coordinations 647)		
Qualification (Initial)	0	n/a
Qualification (Renewal)	1	n/a
Regulation D Filings	293	n/a
Other Exemption or Exclusion Notices	59	6
Business Opportunity (Initial)	n/a	10
Business Opportunity (Renewal)	n/a	13

LICENSING & BRANCH OFFICE REGISTRATION	Broker-dealers	Inv. Advisers	Issuers
Firm Initial Registrations Processed	44	49	n/a
Firms Registered as of 3/31/92	1,467	707	n/a
Agent Initial Registrations Processed	5,307	529	2
Agents Registered as of 3/31/92	50,100	4,738	125
Branch Office Registrations Processed	43	9	n/a
Branch Offices Registered as of 3/31/92	501	118	n/a
Examinations Conducted	16	14	0

INVESTIGATIONS	Securities	Bus. Opportunities
Investigations Opened	43	11
Investigations Closed	32	19
Investigations in Progress as of 3/31/92	83	14
Subpoenas Issued	15	1

ADMINISTRATIVE ENFORCEMENT ACTIONS	Number	Parties
Securities		
Cease and Desist Orders	2	9
Denial, Suspension & Revocation Notices	1	1
Denial, Suspension & Revocation Orders	2	2
Cancellation Notices	0	0
Cancellation Orders	0	0
Notices of Intent to Fine	0	0

ADMINISTRATIVE ENFORCEMENT ACTIONS (Continued)	Number	Parties
Securities		
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	2	2
Stipulation and Agreements Executed	8	11
New Referrals (Civil)	1	6
New Referrals (Criminal)	1	2
Business Opportunities		
Cease and Desist Orders	1	3
Notices of Intent to Fine	0	0
Orders Imposing Fine	0	0
Notices of Intent to Issue Stop Order	0	0
Stop Orders Issued	0	0
Miscellaneous Orders	0	0
Consent Orders Executed	0	0
Stipulation and Agreements Executed	1	1
New Referrals (Civil)	0	0
New Referrals (Criminal)	0	0

Monetary Sanctions	$ Assessed
Consent Orders (Securities)	0
Stipulation and Agreements (Securities)	94,540
Stipulation and Agreements (Bus. Opportunities)	2,000
Total	**$ 96,540**

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 ( ) _____

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 amendments.