

BEFORE THE SECURITIES COMMISSIONER
OF THE STATE OF DELAWARE

In the matter of:

PRUDENTIAL SECURITIES INC.,
Respondent.

CASE NO. 93-11-02

FINAL CONSENT ORDER

WHEREAS, Prudential Securities Incorporated, is a broker-dealer registered in the State of Delaware; and

WHEREAS, the Securities Division of the Delaware Department of Justice (the "Division") has undertaken an investigation into the activities of Prudential Securities Incorporated in connection with the underwriting and offer and sale of limited partnership securities to investors from the period January 1, 1980 through December 31, 1990; and

WHEREAS, the Division's investigation has been conducted in coordination with investigations by a multi-state task force and the U.S. Securities and Exchange Commission (SEC); and

WHEREAS, in connection with the entry of this Order, Prudential Securities Incorporated has consented to the entry of a court order by the U.S. District Court, Securities and Exchange Commission v. Prudential Securities Incorporated, 93 Civ. 2164, Final Order (D.D.C., Oct. 21, 1993) and an administrative order by the Securities and Exchange Commission ("SEC") In the Matter of Prudential Securities Incorporated, Exchange Act Rel. No 34-33082

(October 21, 1993) (the "SEC Orders") in connection with the offer or sale of limited partnership securities; and

WHEREAS, Prudential Securities Incorporated has cooperated with state officials conducting the multi-state investigation by responding to inquiries, providing documentary evidence and other materials, and providing the states access to facts relating to the investigation; and

WHEREAS, Prudential Securities Incorporated has been ordered to pay \$330 million to the Claims Administrator of a court supervised Claims Fund for individual investors pursuant to the SEC Orders; and

WHEREAS, Prudential Securities Incorporated ("PSI") has agreed to reimburse any state for its reasonable, accountable expenses (as certified by the North American Securities Administrators Association) in the investigation of this matter; and

NOW THEREFORE, the Delaware Securities Commissioner (the "Commissioner"), who has been delegated by the Delaware Attorney General to act for him in administering the Delaware Securities Act, hereby enters this Order:

I. SCOPE OF THE ORDER

1. For purposes of this Order, the term "DIG-Related Activity" shall mean the activities of PSI, its predecessors, subsidiaries, affiliates, officers, directors, employees, agents and those persons in active concert or participation with them in connection with the origination, offer or sale of any security identified in Exhibit A hereto, and any limited partnership

interest ("The Limited Partnership Interests"), during the period January 1, 1980 through and including December 31, 1990 (the "Time Period") by, through or in conjunction with PSI's Direct Investment Group, its predecessors and successors.

2. This Order does not include any release as to any co-sponsors of PSI in connection with DIG-Related Activity.

3. This Order does not limit any purchaser's private remedies against PSI or others for DIG-Related Activity, or PSI's liability to any person, or PSI's defenses thereto, except as provided in the SEC Orders with respect to the statutes of limitations and repose.

4. Except as explicitly provided in this Order, nothing herein is intended to or shall be construed to have created, compromised, settled or adjudicated any claims, causes of action, or rights of any person whomsoever, other than as between the Commissioner and PSI in accordance with this Order.

5. Any violation of the related SEC Orders shall be deemed violations of this Order. Should PSI fail to abide by the terms and conditions of this Order or the SEC Orders, nothing contained herein shall be construed to prevent the Commissioner from exercising the authority to impose any appropriate civil or administrative penalty against PSI.

6. Unless otherwise defined in this Order, all capitalized terms herein shall have the meanings as set forth in the SEC Orders.

II. FACTUAL FINDINGS

A. SUMMARY OF PSI'S LIMITED PARTNERSHIP RELATED SALES PRACTICE VIOLATIONS

From 1980 through 1990, PSI sold approximately \$8 billion of interests in more than 700 different limited partnership offerings to investors throughout the United States.¹ The vast majority of the limited partnership interests PSI sold carried with them significant risks of loss, in that their financial success was largely dependent on the value of the assets in which the limited partnerships invested.

In numerous instances, PSI misrepresented speculative, illiquid limited partnerships as safe, income-producing investments, suitable for safety-conscious and conservative investors. As a result of these practices, PSI sold limited partnerships to a significant number of investors for whom the investments were not suitable in light of the individuals' financial condition or investment objectives, and caused many other investors to purchase securities they would not otherwise have purchased if they had been adequately informed of the inherent risks of these types of partnership investments.

PSI's origination and marketing of limited partnerships was handled by the firm's Direct Investment Group ("DIG"). DIG was

¹ This proceeding relates to PSI's sale of securities originated, offered or sold by, through or in conjunction with PSI's Direct Investment Group. The vast majority of these offerings consisted of public and private placement limited partnerships. This unit also participated in the origination and marketing of a limited number of grantor trusts and real estate investment trusts. These various investments are hereinafter referred to collectively as "Limited Partnership Interests."

responsible for PSI's development of limited partnership offerings in conjunction with PSI's co-sponsors, the distribution of promotional materials, and the administration of PSI's subsequent participation in the business operation of many limited partnerships. In virtually every aspect of its operations, but particularly with respect to its marketing and promotional efforts, DIG operated outside of PSI's existing supervisory and compliance structure.

PSI did not adequately supervise DIG personnel or monitor their marketing activities. DIG's promotional materials directed to its sales force contained materially false and misleading statements concerning limited partnerships which, in many instances, were contrary to prospectus disclosures and misrepresented the safety, potential returns, and liquidity of the relevant limited partnership investments.

Only in recent years have PSI's sales practice problems come to light. The limited partnerships were principally invested in real estate, oil and gas producing properties and aircraft leasing ventures. The value of these assets declined in the late 1980s and limited partnership investors have generally suffered a decline in the value of their investments. For a substantial period of time, PSI carried the investments at original cost on its customer account statements, rather than at current market value.

As a result of its sales practices in connection with limited partnership interests, PSI, during the relevant period, violated Sec. 7303 of the Delaware Securities Act.

B. BACKGROUND

Limited partnerships differ from other investment vehicles in a number of significant respects. They may have unique implications for the investor concerning taxes, liability in the event of default, rights upon liquidation, dissolution or foreclosure of the partnership or its assets, and redemption privileges, among other things. Limited partnerships typically offer investors direct ownership interests in one or more underlying assets to be acquired, operated, developed, or otherwise managed by the general partner on behalf of the limited partners, in accordance with terms set forth in an offering document or prospectus.

There is no established secondary trading market for most limited partnerships and investors are usually advised in the prospectus that a limited partnership investment may not be appropriate if they anticipate a short term need to liquidate the investment for cash. This lack of liquidity stems from the fact that most limited partnerships are formed to acquire, manage and hold for a specified period of time tangible assets which require substantial capital expenditures and which do not readily lend themselves to resale. The intent behind most limited partnership investments is to receive income or other benefits during the useful life of the underlying asset and profit from its sale when the limited partnership is terminated.²

² Prior to the Tax Reform Act of 1986, many direct investment limited partnerships were structured as tax-advantaged investments, while those products offered

The approximately \$8 billion PSI raised in limited partnerships was invested principally in real estate, oil and gas producing properties, and aircraft leasing ventures. Limited partnership investors generally have suffered significant losses in recent years due to, among other factors, declining prices for these assets. Moreover, in many instances, the partnerships have substantially reduced or altogether ceased making cash distributions to their limited partners.

C. DIG'S ORGANIZATION, AND ORIGINATION AND MARKETING ACTIVITIES

PSI's participation in limited partnership offerings was handled by DIG which was, for most of the relevant period, a unit of the firm's Retail Sales Group. Between 1980 and approximately 1990, DIG, in conjunction with at least 68 different co-sponsors, caused PSI to participate in the origination or sale of more than 700 different limited partnership offerings. PSI functioned variously as underwriter, selling agent, and/or sole or co-general partner in connection with each of these offerings.

In its New York headquarters, DIG operations were divided among various sections including for most of the relevant period: Origination/Due Diligence - responsible for developing the investment concept into a limited partnership product, in conjunction with PSI's co-sponsors; Asset Management - responsible for carrying out PSI's responsibilities as sole or co-general partner of the limited partnerships it sponsored, and monitoring

subsequent to 1986 were designed primarily to generate income from the acquisition, operation and eventual sale of tangible assets.

PSI's co-sponsors who functioned in that capacity; and Marketing - responsible for limited partnership-related promotional efforts nationwide.

The goal of DIG was to promote limited partnership sales. Once a limited partnership offering had been structured, DIG's marketing personnel generated a wide variety of selling tools to promote its sale throughout PSI's vast retail branch office network. DIG personnel located in DIG's New York headquarters and in PSI's various regional offices prepared "promotional" materials directed to registered representatives. DIG also distributed information to PSI's sales force through other PSI publications. Many individual brokers also prepared their own sales materials derived in whole or in part from information supplied by DIG, which they provided directly to customers. In addition, PSI's co-sponsors had their own marketing operations which produced a substantial amount of promotional materials for use by PSI's brokers in selling limited partnerships. PSI did not adequately review the materials DIG generated internally or those materials prepared by PSI's co-sponsors.

During most of the relevant period, the principal DIG marketing officers were known as Regional Coordinators. Normally, each DIG Regional Coordinator was allocated a Regional Marketing Specialist and several staff assistants. Although physically located in PSI's various regional headquarters, DIG Regional Coordinators reported directly to the head of DIG in New York; rather than to the firm's Regional Directors, who were otherwise responsible for the overall activities of the branch offices

located within their regions. DIG Regional Coordinators and their staffs made sales presentations and distributed sales literature and promotional materials to branch office personnel in person, through inter-office mail and other internal communication systems. Their activities were outside PSI's regular supervisory and compliance structure and received little supervision or monitoring from any personnel outside of DIG. DIG Regional Coordinators served as liaison between PSI's retail sales force and marketing personnel employed by PSI's co-sponsors, known as "wholesalers." They organized special marketing events where they gave audio and video presentations to registered representatives and potential investors concerning DIG products. DIG Regional Coordinators also held telephone conferences on a regular basis with Branch Office Managers to describe and promote new DIG offerings, and some distributed newsletters to all registered representatives within their regions containing detailed descriptions of all available DIG products, as well as previews of those offerings yet to come.

PSI derived substantial revenues from the origination, sale and subsequent business operations of the limited partnerships as selling agent and, in many cases, sole or co-general partner of the partnerships. These revenues came, in part, from sales commissions which were generally higher for limited partnership purchases than for other available products. These higher commissions also resulted in greater compensation to registered representatives. PSI also instituted a program to share with its sales force a portion of the fees and revenues the firm received in its capacity as sole or co-general partner from the business operations of the

limited partnerships.

D. OVERVIEW OF DIG PROMOTIONAL MATERIALS

Many DIG promotional pieces directed to PSI's sales force were in standardized formats which were adapted for use in numerous offerings.³ DIG supplemented this printed information with oral presentations to registered representatives over a nationwide inter-office telephone communications system and at periodic meetings, conferences and seminars throughout the country. DIG also sponsored "due diligence" trips during which Branch Office Managers and registered representatives were given the opportunity to visit property sites owned or to be acquired or operated by the limited partnerships.

Internally-generated promotional materials and the information obtained during oral presentations sponsored by the firm were principal sources of information available to registered representatives concerning the features of direct investment limited partnerships. As "proprietary products," most direct investment limited partnerships were available exclusively through PSI and, at the time of the purchase, there were rarely any sources of information outside of the firm concerning these products. Brokers relied on the printed and oral information they received to

³ For example, DIG generated many of the following materials directed to registered representatives for each limited partnership offering: a so-called "Fact Sheet," regional "DI Sales Action Worksheet" and "DIG Product Snapshots," and numerous miscellaneous items such as presentation outlines, seminar invitations, telephone scripts, and prospecting guides. PSI and its co-sponsors also distributed several periodic publications containing product descriptions, performance updates, sales commission rates and other sales incentive information.

ascertain limited partnership characteristics such as potential returns, suggestions for potentially suitable investors and the risks attendant to the investment.

PSI expected brokers to use DIG promotional materials in their oral sales presentations to customers and to rely on their contents. Brokers were not required, and frequently were not encouraged to read prospectuses. Prospectuses were viewed by many registered representatives as "legal documents" that they were required to provide to customers, but which were to be orally supplemented and explained pursuant to the promotional materials provided by the firm. Purchasers of DIG-sponsored public limited partnership offerings typically received prospectuses only after they had committed to purchase the product.

**E. PSI SOLD MANY LIMITED PARTNERSHIPS
AS SAFE, HIGH-YIELD INVESTMENTS**

Safety and high income were among the themes which appear in much of DIG's limited partnership promotional literature directed to registered representatives. At one National Conference DIG sponsored to promote limited partnership sales, attended by 197 registered representatives, a marketing consultant retained by DIG gave a presentation designed to improve their selling techniques. Materials distributed in the course of that presentation divided potential customers into four categories: "Forceful, Thorough, Friendly, and Enthusiastic."

Registered representatives were provided "strategies" for successful selling techniques for customers in each category. "Friendlies," for example, were described in this material as "trusting" and "non-risk taking" personalities. In soliciting

"Friendlies," brokers were encouraged to use such phrases as "Trust me, I'll take care of all the problems," "It's almost guaranteed, so you can feel safe about it," and "We want you to be comfortable about it so just relax." Another tactic brokers were told to use was to "Stress safety and guarantees. Give your personal assurances."

Certain DIG promotional materials directed to registered representatives misrepresented "guarantees" which accompanied several limited partnership offerings. Typically, these "guarantees" were subject to significant restrictions. DIG's promotional materials frequently failed to disclose the many conditions attendant to "guarantees" or the limited circumstances under which the "guarantee" actually applied.

For example, PSI raised more than \$190 million on behalf of one limited partnership which, according to the prospectus, intended to acquire residential apartment complexes and thereafter operate and hold the properties as an investment. As part of the offering, a financial institution had agreed to issue a letter of credit which provided for payment under very limited circumstances described in the prospectus. The prospectus contained detailed risk disclosure concerning the offering, including the absence of any public market for the securities. The prospectus expressly stated that "no investor should view the Letter of Credit as providing protection against certain risks attendant to an investment in the Partnership." The prospectus also prohibited the use of forecasts, representations or predictions as to the amount or certainty of any present or future cash benefit or tax

consequence in connection with the offering.

In marketing this limited partnership, DIG regional promotional materials deviated from the prospectus in numerous significant respects. For example, DIG promotional materials stated that this product featured "growth, fast cash, safety and liquidity." The DIG "Fact Sheet" asserted on its first page that "investors' capital will be backed by a letter of credit," relegating to a subsequent page any reference to the prospectus for additional details. No discussion of the significant restrictions applicable to the credit facility was contained in the "Fact Sheet." Several DIG promotional pieces contained forecasts of returns although the prospectus prohibited use of such forecasts, and proclaimed "No Risk of Principal - Your customer's total investment plus 28% is guaranteed by a letter of credit." [Emphasis in original.] These statements were false.

Similarly, a "DI Sales Action Worksheet" for this product used in at least three PSI regions suggested that registered representatives recommend it to customers who need: "Safety, quick return of capital, growth, income, tax benefits." Safety was purportedly assured by the letter of credit which, this memorandum to registered representatives erroneously stated, "guarantees 128% return to investor." [Emphasis in original.] In this "DI Sales Action Worksheet," DIG informed brokers that this product should be purchased by "pensions, IRA accounts, customers who want current income, early return of their investment, growth, and downside protection ... [and] conservative investors." The information contained in DIG promotional literature was often used to solicit

limited partnership sales. For example, the following sales script addressed to customers was incorporated into the "DI Sales Action Worksheet":

As you can see, [this product] provides you with the growth and income you need while also addressing your concerns for safety. After reviewing your portfolio, I believe that a \$25,000 investment would be appropriate, or would you prefer to take a larger position?

Although the prospectus expressly prohibited use of forecasts or predictions concerning future returns, another regional DIG promotional publication suggested that registered representatives make the following sales pitch to investors:

[Y]ou will start with about 6% return and that should increase each year ... This investment comes with a letter of credit [which] guarantees that you won't receive less than 128% of your original investment back. Not a bad deal, is it? Buying real estate for growth with no downside ... I'll put you down for \$20,000 worth, or would you rather take a stronger position?

PSI customers have suffered a decline in value of approximately one-third of the \$190 million they invested in this program based on current real estate prices.⁴ To date customers have received total cash distributions since 1988 of approximately 18% of their investment.

In another example, PSI offered its retail customers interests in a venture which had been formed to invest in subordinated real estate loans, construction loans, pre-development loans and land loans on properties owned or to be acquired by affiliates of the

⁴ The eventual outcome of the transaction including what, if any, payment will be made on the letter of credit is uncertain.

general partner. To a lesser extent, the venture was also to make equity investments in real property. The prospectus for this offering disclosed that an affiliate of the sponsor had agreed to provide, subject to the risks disclosed in the prospectus, the funds required for guaranteed returns over three different time periods.⁵ The prospectus disclosed that these guarantees were subject to substantial risks, including that the guarantor might not be able to honor any of its guarantees. In addition, the prospectus contained more than eight pages of detailed disclosure concerning other general and specific risks.

Despite the substantial risks disclosed in the prospectus, DIG marketed the offering essentially as a safe investment with a series of unqualified guarantees. One typical promotional piece especially stressed the "safety" of the investment, stating that the "worst case [would be] the return of the customer's investment." That same piece urged registered representatives to solicit "CD and bond buyers," "pension, IRA/Keogh accounts," and "utility stock buyers" to purchase the security.

Between March and December of 1988, PSI sold \$296 million of common stock in this offering. To date, investors have lost approximately one-third of their capital, even after taking into account distributions they have received and the uncertain residual value of their investment.

⁵ According to the prospectus, investors in this offering would receive 7.5% per annum during the offering period, 12% per annum from the closing date through December 31, 1990, and cash distributions equal to subscribers' original investment no later than the earlier of final liquidation of the fund or the 15th anniversary of the closing date.

F. DIG PROMOTIONAL MATERIALS MISSTATED RETURNS ON SOME LIMITED PARTNERSHIP INVESTMENTS

A primary objective of certain PSI limited partnership offerings was to pay cash distributions to investors from the business operations of the partnerships. In connection with some of these offerings, PSI used projected and past cash distribution ratios as a major selling point in promoting limited partnerships over other "income-producing" investments. Certain DIG promotional materials used in connection with a related series of offerings characterized payments to investors as cash distributions, as well as "income," "returns on investment" and "yields." Those materials stated that investors could expect "anticipated current yields in the range of 15-20% annually," "anticipated return on investment 16-19% annually ... [with] Lower Risk," and that "the anticipated return on investment is projected to be 10-12% in the first year, and once the Partnership is fully invested, the yield is anticipated to be 13-15% or greater." DIG's materials also promoted certain partnership offerings based on the purported "proven track record" of earlier offerings in the same series.

The use of such terms as "income," "return on investment" and "yield" interchangeably and without adequate explanation of their meaning was misleading. These DIG promotional materials did not adequately explain that past or projected cash distributions included return of investor capital and, in some instances, distribution of funds the partnerships had borrowed from third parties. In selling limited partnerships to investors, PSI often failed to adequately explain such returns and made false and misleading statements concerning past and projected returns.

**G. PSI'S CUSTOMER ACCOUNT STATEMENTS
CARRIED LIMITED PARTNERSHIP POSITIONS AT COST**

Until 1991, PSI showed limited partnership positions on customer account statements at the original purchase price, rather than at current market value, and incorporated that purchase price in a "net worth" calculation which appeared on the face of the account statements.⁶ Since purchase price never fluctuated, the net worth calculation which incorporated it failed to reflect declining asset values or the absence of any reliable secondary market price.

In addition, in some instances, certain DIG promotional materials stated that direct investment positions would appear on account statements at par. Registered representatives were told that direct investments would experience "no short term volatility."

PSI's practice of reflecting limited partnerships on account statements at cost in many instances provided investors with a false sense of safety about their investments and failed to reflect the current market value, if any, of their investments.

**H. IN MANY INSTANCES, PSI BROKERS IGNORED
SUITABILITY DETERMINATIONS**

DIG's marketing approach generally was to ignore individual suitability considerations and promote the sale of limited partnerships to virtually every PSI customer. DIG promotional

⁶ PSI stated, on the back of its statements, that the security was valued at the original purchase price and that the price shown was for informational purposes only. After March 31, 1991, the statement was amended to read that "the original cost may not represent the current market value."

materials contained numerous statements such as "this product is suitable for every customer in your book" and "is there any reason you could not invest \$10,000 or \$20,000 in this limited partnership?" DIG also stressed that its promotional materials were adaptable for most investors, including stock buyers, bond buyers, CD investors, commodities traders, active accounts, or those who buy for the long term.

Subsequent to the adoption of the 1986 Tax Reform Act, DIG emphasized sales of certain partnerships to income-oriented investors. In particular, DIG identified investors with maturing certificates of deposit as potential purchasers of several speculative limited partnerships which would invest in:

- residential apartments, shopping centers, office buildings, warehouses, mobile home communities, and hotel properties which were either recently completed or still under construction;
- subordinated mortgage loans on similar "income-producing" properties;
- oil and gas producing properties; and
- used commercial jet airplanes to be leased and ultimately sold.

In many cases the sales of such limited partnerships to investors who had previously held certificates of deposit resulted in unsuitable sales being made to PSI's customers, including retirees and pension funds.

For example, PSI sold one limited partnership formed to invest in mortgage loans on apartment communities still under development. The prospectus expressly prohibited the use of forecasts or predictions in connection with the offering, and contained detailed risk disclosure concerning, among other things, the absence of any

secondary market for the securities and the lack of diversity in the investment.

In promotional materials directed to registered representatives, DIG suggested that this product be recommended to investors with certificates of deposit about to mature. The DIG "Fact Sheet" for this offering contained the following suggested sales call script:

Mrs. Jones ... I am calling because you have a CD maturing and we need to place that money again to get you the highest yield. Currently the CD market will give us 7.5 - 8.1 % for seven-ten years ... Now I knew that those yields would not be to your liking so I looked a little further and found an alternative. We can take a portion of your dollars and invest it like your bank does. We will lend it to [sponsor] to use in his business. Now you ask me, "Who is [sponsor]?" He is the largest owner, developer of apartments in the Southeast and his net worth is in excess of \$100,000,000. How safe is [your] money? Since I knew that safety was a concern of yours Mrs. Jones, I made sure of this safety before we spoke. [Sponsor] is personally guaranteeing the mortgage payments with his own net worth, for the first three years. You will receive a minimum of 8.5% on your investment and that cash flow should increase after the first 3 years by a half percent per year. Your average yield will be around 11% and your money will mature in twelve years.

The prospectus prohibited use of forecasts or predicted returns such as those contained in this proposed telephone script. Furthermore, in making such predictions, DIG failed to disclose the assumptions upon which they were based, including, for example, sustained appreciation in the real estate market.

In promotional materials used in at least two of PSI's geographic regions for a similar mortgage-related limited partnership, DIG again urged PSI's sales force to direct their

efforts to investors with maturing certificates of deposit. One promotional piece explained:

Most CD investors are looking for: Safety of Principal and Yield; [this product] has both! GP Guarantees; Higher Yields Than CDs, PLUS something no CD can offer -- GROWTH POTENTIAL ... 8% Yield Plus Guaranteed Principal and Interest Payments! Can you find any CD paying that high a yield? Liquidity -- the Fund Expects to list on an exchange within 2 1/2 years. Growth Potential -- a Minimum of 25% participation in the appreciation of the underlying real estate. Subjects: CD/Bond Buyers, Young Parents setting up for college-education funds for their children (UGMA Accounts), Customers on a fixed income -- this will be a higher yield than they can get elsewhere and will grow with inflation. Great for IRAs, Pensions, etc. (They love the security of the 1st Mortgage PLUS the Guarantee.)

Using sales presentations such as these, PSI sold more than \$54 million of interests in this limited partnership in 1987. Six years later, investors have received less than one-third of their investment back in cash distributions and hold illiquid residual interests of uncertain market value.

As a result, PSI recommended and sold limited partnerships to tens of thousands of investors for whom they were not suitable.

I. ANTIFRAUD VIOLATIONS ARISING OUT OF PSI'S OFFER AND SALE OF LIMITED PARTNERSHIP INTERESTS

The Commissioner stresses the obligation of broker-dealers to assure that retail sales activities comply with the antifraud provisions of Sec. 7303 of the Delaware Securities Act.

1. False Statements and Omissions

PSI made material misstatements and omissions in the sale of limited partnership interests relating, among other things, to the

nature, potential yields, safety, and purported liquidity of the investments. These misstatements and omissions were communicated to investors through jurisdictional means.

In many instances, PSI failed adequately to disclose significant risks attendant to limited partnerships such as the absence of a reliable secondary market, the qualified nature of guarantees, and inherent conflicts of interest.

Investors had few if any reliable sources of information other than PSI concerning the limited partnerships they were purchasing and were therefore vulnerable to misleading sales presentations from brokers willing to disregard the unsuitability of the recommended security for the purchaser.

These practices violated the antifraud provisions of Sec. 7303 of the Delaware Securities Act.

2. Suitability

In many instances, PSI failed to make required determinations, in recommending and selling limited partnerships, that the investments were suitable for investors in light of their individual financial status and investment goals. PSI also recommended, often in disregard of their individual needs and financial goals, that investors, including some who were elderly or retired, transfer money from investments with relatively little risk of loss of principal to speculative, illiquid limited partnerships. As a result, PSI violated Sec. 7303 of the Delaware Securities Act.

J. FAILURE TO SUPERVISE DIG

PSI established an operating unit which, over a ten year period, facilitated the sale of approximately \$8 billion in limited partnership interests to hundreds of thousands of investors nationwide. PSI permitted this unit to operate outside of the firm's existing supervisory and compliance structure. As a result, PSI's sales force sold limited partnerships to thousands of customers using materially false and misleading misrepresentations and omissions, in violation of the antifraud provisions of the federal securities laws.

Section 7316(a)(10) of the Delaware Securities Act authorizes the Commissioner to sanction broker-dealers who fail reasonably to supervise, with a view to preventing violations of the Delaware Securities Act.

PSI failed adequately to oversee its DIG unit to ensure that the sales presentations of registered representatives -- persons subject to its supervision and control -- were accurate, consistent with prospectus disclosure, and otherwise complied with applicable rules and regulations. PSI's supervisory failures permitted violations to continue for years.

PSI did not adequately review, supervise or control DIG personnel with a view towards preventing the creation, distribution and use of false and misleading promotional materials in selling limited partnerships. DIG, headquartered in New York and with personnel located nationwide, operated outside of PSI's regular supervisory and compliance structure. DIG marketing personnel made sales presentations and distributed materials to PSI's retail sales

force with little supervision or monitoring from any personnel outside of DIG.

III. INFORMATION REPOSITORY

1. PSI shall establish and maintain in a manner that the Claims Administrator may direct for ready inspection during business hours by potential claimants, their attorneys and representatives:

a. A database containing, with respect to each settled claim and each claim submitted to the Expedited Dispute Arbitration Proceedings established under the SEC Orders, the following:

(i) the limited partnership which gave rise to the claim;

(ii) a brief description of the claim, including the date and the amount of the purchase;

(iii) the terms of the settlement, arbitration award or order, including the amount of any payment by PSI; and

b. All awards or orders resulting from the Expedited Dispute Arbitration Proceedings, indexed to the database established under paragraph III.1.a, above, and all reports of the Claims Administrator.

2. PSI shall make data contained in the Information Repository available to the Commissioner upon request.

IV. REMEDIAL MEASURES

PSI shall adopt, implement and maintain the following remedial measures:

1. Within the time limit required in the SEC Orders, PSI shall establish, and maintain for a period of at least five years, a Compliance Committee of its Board of Directors (the "Compliance Committee"), consisting of no fewer than three persons.

2. The Compliance Committee shall oversee PSI's compliance with applicable federal and state securities laws and the rules and regulations of all national securities exchanges, the MSRB, and self-regulatory organizations of which PSI is a member, and report thereon at least quarterly to the Board of Directors of Prudential Securities Group. That report shall address the activities of the Compliance Committee in meeting its responsibilities under this Order.

3. The Compliance Committee shall take such steps or direct that management take steps as the Compliance Committee deems necessary or appropriate to correct in a timely fashion any material compliance failure or any material failure to comply with any Compliance Directive, as hereinafter defined. The Compliance Committee may authorize amendment of any Compliance Directive to achieve compliance by PSI or its associated persons with regulatory requirements.

4. A "Compliance Directive" is:

- (a) Any instruction from the Compliance Department, designated as such, to any PSI employee(s) to cease any activity or course of conduct or to affirmatively take action to comply with federal and state securities laws, the rules and regulations of all national securities exchanges, the MSRB, and self-regulatory organizations of

which PSI is a member, or PSI's policies and procedures embodied in its Compliance Manual or other Compliance Department publications; or

- (b) any other instruction from the Compliance Department to any PSI employee(s) designated as a Compliance Directive.

The Director of Compliance shall act reasonably and in good faith in designating, or not designating, as the case may be, instructions as Compliance Directives. The Director of Compliance shall maintain a record of all Compliance Directives and PSI shall maintain records reflecting the monitoring of compliance therewith.

5. It shall be the responsibility of the Director of Compliance to cause PSI to establish procedures, and a system for applying such procedures, which would reasonably be expected to achieve compliance by all PSI personnel with all applicable federal and state securities laws, the rules and regulations of all national securities exchanges, the MSRB, and self-regulatory organizations of which PSI is a member, as well as with Compliance Directives.

6. In the event the Director of Compliance determines that there has been a material compliance failure that has not been corrected or that a Compliance Directive has not been materially complied within a reasonable time, the Director of Compliance shall report the failure or non-compliance to the Compliance Committee, PSI's Chief Legal Officer and PSI's Chief Executive Officer. In addition, the Director of Compliance shall create a record of the failure or non-compliance, including a description of the steps the Compliance Department has taken, the responses thereto, or failures.

to respond, by involved supervisory personnel. PSI shall maintain the records required by this paragraph as Compliance Department records available for inspection by the Commissioner.

7. Within the time periods required in the SEC Orders, PSI shall establish, and maintain for a period of five years, the position of Regional Compliance Officer for each of its operating regions. The duties and responsibilities of each Regional Compliance Officer shall consist exclusively of compliance matters.

8. Regional Compliance Officers shall have no direct financial interest in the commissions or other revenue generated from customer accounts, and shall report to the Director of Compliance.

9. Regional Compliance Officers shall have such duties and authority as the Director of Compliance shall determine, including the duty to notify the appropriate Regional Directors, Branch Office Managers, and the Director of Compliance of any material compliance failure or any material failures to comply with any Compliance Directive.

10. Within the time limit required in the SEC Orders, PSI shall review, modify where appropriate, implement and maintain procedures relating to supervision and oversight by Branch Office Managers of all registered representatives and other personnel in Branch Offices; and shall review, modify where appropriate, implement and maintain procedures which specify the responsibilities of Regional Directors for supervision and oversight of all Branch Office Managers in each respective Region.

11. Within the time limit required in the SEC Orders, PSI shall review, modify, develop, implement and maintain procedures to achieve review and approval by designated Law and Compliance Department personnel of marketing, sales and promotional materials, whether for internal use or for dissemination to customers. PSI shall maintain a record of the particular personnel designated to review materials pursuant to this paragraph.

12. By May 1, 1994, PSI shall evaluate its current policies and procedures and shall implement any new or revised policies and procedures designed to detect and prevent violations of applicable federal and state securities laws, the rules and regulations of all national securities exchanges, the MSRB, and self-regulatory organizations of which PSI is a member, including violations such as those described in this Order. That review shall include, without limitation, policies and procedures designed to address:

- (a) the prohibition of excessive trading in customer accounts;
- (b) the prohibition of trading that is unsuitable in light of the customer's financial condition and investment objectives;
- (c) customer verification of the accuracy of account information;
- (d) the disclosure of margin account status to customers who open or maintain "Command" or other cash-management accounts;
- (e) PSI's "due diligence" with regard to securities offerings;

- (f) supervision with respect to trading in mutual funds:
 - (1) to detect and prevent failure to comply with PSI's "switch letter" procedures;
 - (2) to detect and prevent breakpoint trading; and
 - (3) to afford customer receipt of rights of accumulation;
- (g) the hiring and continued employment of registered representatives who have been the subject of a customer complaint or disciplinary action including:
 - (1) the development of standards to identify registered representatives or prospective registered representatives who have significant disciplinary histories, or who have been the subject of significant customer complaints;
 - (2) the requirement of written approval by designated Law or Compliance Department personnel of the hiring of any registered representative who has had a significant disciplinary history or who has been the subject of significant customer complaints (PSI shall maintain a record of all personnel designated pursuant to this paragraph); and
 - (3) the adoption and implementation of systems:
 - (a) to communicate significant customer complaints or disciplinary actions involving PSI registered representatives or other employees to appropriate personnel in PSI's Law and Compliance Departments and appropriate Regional Directors and Branch Office Managers; and
 - (b) to require appropriate Law and Compliance

Department personnel to review that information, make a recommendation to the appropriate supervisory personnel, and be advised by such supervisory personnel of the action taken with respect thereto. In the event the Law or Compliance Department recommends that a PSI employee be disciplined or terminated and such recommendation is not accepted, prompt notification shall be given to the Compliance Committee, and a record of such notification shall be maintained.

(h) the management and supervision of active accounts, including:

(1) the periodic creation and distribution of active account reports to the Branch Office Manager, Regional Director, and the Regional Compliance Officer;

(2) periodic contact between PSI's supervisory personnel and customers to determine that the customer:

(a) knows that the account has appeared on an active account report;

(b) knows the extent to which the account shows a gain or a loss over a prescribed period of time; and

(c) is suitable for the trading in the account in light of the financial situation and investment objectives of the customer.

13. Within the time limit required in the SEC Orders, PSI shall review, modify where appropriate, implement and maintain

procedures to accomplish routine distribution of periodic Branch Office audit reports or Compliance visitation reports to the Director of Compliance, and to achieve timely correction of deficiencies identified therein.

14. PSI shall cause its outside auditor to conduct a statistically valid survey of customers designed to test the effectiveness of PSI's sales practice supervisory procedures in achieving compliance with applicable laws and regulations. This survey shall be conducted in accordance with standards established by the American Institute of Certified Public Accountants and shall be performed annually for no less than three years, and may be conducted at the same time as the firm's regular annual audits, commencing with the 1994 audit. PSI will obtain copies of all underlying survey documentation from its auditor. PSI will make the report of this survey, as well as the underlying documentation, available upon request to any federal or state securities regulator or to any self-regulatory organization of which PSI is a member.

15. PSI shall reasonably cooperate, and use all reasonable efforts to cause its present or former officers, directors, agents, servants, employees, attorneys-in-fact, assigns, and all persons in active concert and participation with them to reasonably cooperate with investigations, administrative proceedings and litigation conducted by the State of Delaware arising from or relating to DIG-Related Activity.

V. CONCLUSIONS OF LAW

1. The Commissioner has jurisdiction over this matter pursuant to Del. Code Ann. tit. 6, ch. 73, § 7301 et seq., as

amended (hereinafter, the "Delaware Securities Act").

2. In connection with the offer and sale of securities, PSI has:

- a. employed devices, schemes and artifices to defraud,
- b. made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, and
- c. engaged in acts, practices and courses of business which operated as a fraud and deceit upon investors,

in violation of Sec. 7303 of the Delaware Securities Act.

3. PSI has failed to supervise its agents within the meaning of Sec. 7316(a)(10) of the Delaware Securities Act.

VI. ORDER

THEREFORE, on the basis of the **FACTUAL FINDINGS** and **CONCLUSIONS OF LAW**, the Commissioner finds that PSI has consented to the entry of this Order without admitting or denying any of the **FACTUAL FINDINGS** or **CONCLUSIONS OF LAW** contained in the Order and that the following Order is appropriate, in the public interest and necessary for the protection of investors:

IT IS ORDERED that this Order represents the complete and final resolution of, and discharge with respect to, all claims, demands, actions and causes of action by the Commissioner against PSI and its predecessors, subsidiaries and affiliates for violations of the Delaware Securities Act arising as a result of or in connection with any actions or omissions by PSI and/or any of its associated or affiliated persons or entities in DIG-Related

Activity during the Time Period and is in lieu of further civil or administrative proceedings. This discharge does not encompass Braeloch Holdings and the Graham Company subsidiaries of Braeloch Holdings. However, nothing in this Order shall in any way affect the authority of the Commissioner to institute any action against any other party, including any individual employee (past or present) of PSI, its predecessors, subsidiaries or affiliates. Additionally, nothing in this paragraph shall be construed as applying if any breach or violation of this Order occurs.

IT IS ORDERED that this Order constitutes and includes a waiver by the Commissioner of any and all limitations and disqualifications that may ensue from the entry of this Order or the SEC Orders that would otherwise affect, restrict or limit the business of PSI and its predecessors, subsidiaries and affiliates or their ability to participate in offerings or avail themselves of exemptions (including, without limitation, the Uniform Limited Offering Exemption, as and to the extent now or hereafter adopted in the State of Delaware).

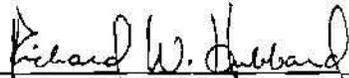
IT IS ORDERED, pursuant to Section 7325(c) of the Delaware Securities Act that PSI CEASE AND DESIST from future violations of the Delaware Securities Act.

IT IS FURTHER ORDERED that PSI, shall comply fully with the SEC Orders.

IT IS FURTHER ORDERED, pursuant to Sec. 7325(b) of the Delaware Securities Act, that PSI shall pay Five Hundred Thousand Dollars (\$500,000.00) to the Delaware Department of Justice to be deposited into the Investor Protection Fund.

IT IS FURTHER ORDERED, that PSI shall comply fully with the provisions of the Claims Fund as established in the SEC Orders including the limitation on PSI's assertion of statute of limitation defenses as required in the SEC Orders.

IT IS FURTHER ORDERED, that this Order shall become effective immediately.



Richard W. Hubbard
Securities Commissioner

Date: November 23, 1993

VII. CONSENT TO ENTRY OF ORDER BY RESPONDENT

PSI hereby acknowledges that it has been served with a copy of this Order, has read the foregoing FACTUAL FINDINGS, CONCLUSIONS OF LAW, and ORDER, is aware of its right to a hearing in this matter, and has waived same.

PSI admits the jurisdiction of the Delaware Department of Justice; neither admits nor denies the FACTUAL FINDINGS and CONCLUSIONS OF LAW contained in the Order; and consents to entry of this Order by the Commissioner as settlement of the issues contained in this Order.

PSI states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.

Patrick J. Finley represents that he is Senior V.P. of PSI and that, as such, has been authorized by PSI to enter into this Order for and on behalf of PSI.

DATED this 22 day of November, 1993.

Patrick J. Finley
PRUDENTIAL SECURITIES INCORPORATED
[]

EXHIBIT A

LIST OF OTHER SECURITIES

VMS Hotel Investment Trust
VMS Mortgage Investment Fund
Storage Properties, Inc.
Prudential Realty Trust
Metric Income Trust Series, Inc.
First Western Income Realty Trust
Second Western Income Realty Trust
Third Western Income Realty Trust
Lansing Institutional Property Trust
Krupp Government Income Trust
Duke Realty Investments, Inc.
First Capital Financial Corporation
Western Institutional Properties Trust
1983 Polaris Aircraft Trust I
1983 Polaris Aircraft Trust II
1983 Polaris Aircraft Trust III
1983 Polaris Aircraft Trust IV
1984 Polaris Aircraft Trust VI
1984 Polaris Aircraft Trust VII
1984 Polaris Aircraft Trust VIII
1984 Polaris Aircraft Trust IX
1984 Polaris Aircraft Trust X
1984 Polaris Aircraft Trust XI
1985 Polaris Aircraft Trust XIV
1985 Polaris Aircraft Trust XV
1985 Polaris Aircraft Trust XVI
1985 Polaris Aircraft Trust XVII
Brazilian Court Hotel
Integrated Energy, Inc.
Apache Petroleum Company
Brock Exploration Corporation Drilling Program
Conquest Exploration Company
May Petroleum Company
Omni Exploration, Inc.
Stone Petroleum Corporation 1981 Program II
Towner Petroleum Company
Visa Energy Corporation