

ADMINISTRATIVE PROCEEDING  
BEFORE THE  
MARYLAND SECURITIES COMMISSIONER

IN THE MATTER OF: \*

EUCLID SYSTEMS CORPORATION, \* Case No. 1998-0615

Respondent. \*

\* \* \* \* \*

**CONSENT ORDER**

WHEREAS, the Maryland Securities Commissioner (the “Commissioner”), pursuant to the authority granted by Section 11-701 of the Maryland Securities Act, Corporations and Associations Article, Title 11, Annotated Code of Maryland (1999 Repl. Vol. & 2004 Supp.) (the “Securities Act”) initiated an investigation into the activities of Michael P. Keating, Sr. (“Keating”); and

WHEREAS, in the course of its investigation of Keating, the Maryland Securities Division (“Division”) pursued an investigation of Keating’s sale of Euclid Systems Corporation’s (“Euclid’s”) securities to persons who were not accredited and while Keating was not registered; and

WHEREAS, Euclid has cooperated with the Division by meeting with representatives of the Division, by producing records concerning Keating’s conduct and by informing the Division of its business prospects; and

WHEREAS, without holding a hearing and without trial or adjudication of any issue of fact or law, and prior to the initiation of any formal proceeding, the Commissioner and respondent have reached an agreement to resolve this matter; and

WHEREAS, respondent, without admitting or denying any findings of fact or conclusions of law, except that respondent expressly consents to the Commissioner's jurisdiction over the subject matter and personal jurisdiction over respondent in this proceeding pursuant to Section 11-701.1 of the Securities Act, and consents to the terms of this Order; and

WHEREAS, the Commissioner has determined that it is in the public interest to issue this Consent Order.

THE COMMISSIONER FINDS:

Jurisdiction

1. The Commissioner has jurisdiction in this proceeding pursuant to § 11-701.1 of the Securities Act.

Respondent

2. Euclid is a Nevada corporation formed in 1995 and originally incorporated in Delaware. It is in the business of manufacturing contact lenses designed to adapt to the specific shape of the cornea. Recently, Euclid has obtained FDA approval for a lens developed for overnight wear. Euclid is headquartered in Virginia with a principal place of business at 2819 Towerview Road, Herndon, VA 20171.

Private Placement Offerings

3. In the late 1990s, Euclid undertook two private placement offerings to obtain financing for its corporate growth and the development of its lens products. The first offering took place between about September 1996 and May 1997; the second offering was between September 1997 and March 1998. In connection with the first offering, Euclid requested an exemption from securities registration from the Securities Division in about September 1996. It

filed a second exemption application in about September 1997.

4. Because the securities offered in the first and second offerings were for the sale of the same or similar class of securities within six months of each other, the offerings should have been integrated.

5. Euclid relied upon Keating to raise funds in the private offerings. In the first offering, Keating raised at least \$1,570,500 from 86 clients for investment in Euclid's preferred stock. In the second offering, Keating raised at least \$1,435,155 for investment in Euclid's securities from 67 clients. Altogether, Euclid raised approximately \$4.2 million.

6. Keating had his clients complete subscription applications to purchase Euclid's stock. Generally, the clients claimed, on Keating's advice, that they were accredited by virtue of having more than one million dollars in assets. In many instances, however, the clients were not accredited. At the Division's request, Euclid sent its investors new application forms to determine whether they were accredited. As many as 34 of those responding claimed they were not accredited.

7. Keating was terminated by his broker-dealer Delta Equity Services, Inc., on November 26, 1997. He has not been registered as a broker-dealer agent since that time. He was not registered during the time that he raised money on behalf of Euclid during most of the second private offering. Even while he was still registered, he was not authorized by his broker-dealer Delta Equity Services to sell Euclid's securities in the second offering. He has subsequently been barred from the securities industry.

8. Euclid and its President Bruce DeWoolfson did not know until late March or April 1998 that Keating was no longer registered to sell securities.

## CONCLUSIONS OF LAW

Respondent neither admits nor denies the following, but the Commissioner concludes:

1. Respondent used an unregistered agent to sell its second private placement offering, in violation of Section 11-402 of the Securities Act.

NOW, THEREFORE, IT IS HEREBY ORDERED THAT, and respondent expressly consents to the terms of this order:

1. Respondent permanently cease and desist from violation of the Securities Act; and
2. Respondent place into an escrow account all royalty proceeds obtained from current or future licensing agreements with Bausch & Lomb and/or its subsidiaries and from BE Enterprises between the date of this Order and December 31, 2007. Respondent shall offer rescission to all non-accredited investors in its integrated offering on or about January 1, 2008, to the extent that there are funds in the escrow account. Respondent shall use the proceeds to pay non-accredited investors requesting rescission in proportion to the requesting investor's principal plus statutory interest from the date of the initial investment. The distribution to rescinding investors may take place as a two step process, with any funds left over from the initial distribution going to the requesting investors in a second step up to and including the amount of principal plus statutory interest; and
3. Respondent provide the Division with semi-annual reports on the status of the escrow account for the periods ending June 30 and December 31, so long as escrow account remains in effect; and
4. The provisions of paragraphs 2 and 3 are without effect if Respondent's securities are publicly traded before the rescission offer is made; and

5. Respondent pay to the Office of the Attorney General \$5,000 in civil monetary penalty at the time this order is signed.

### **CONSEQUENCES OF VIOLATION OF CONSENT ORDER**

If respondent fails to comply with any terms of this Order, the Commissioner may institute administrative or judicial proceedings against the respondent to enforce this Order or to sanction the respondent for violating an order of the Commissioner, and may take any other action authorized under the Securities Act or any other applicable law, including the issuance of fines or penalties as provided by the Act. For the purpose of determining those sanctions, the Findings of Fact and violations of the Act set forth in this Consent Order shall be deemed admitted, and may be introduced into evidence against respondent.

In the event that judicial intervention in this matter is sought by the Commissioner or respondent, subject matter jurisdiction will lie in the Circuit Court for Baltimore City pursuant to Section 11-702 of the Securities Act. That Court will have personal jurisdiction over respondents pursuant to Md. Courts and Judicial Proceedings Code Ann., Section 6-103 (2002 Repl. Vol.). Venue will be properly in that Court pursuant to Section 6-201(a) and 6-202(11) of the article.

### **MODIFICATION OF TERMS OF CONSENT ORDER**

IT IS FURTHER ORDERED that the terms of this Consent Order may only be vacated or

modified by a subsequent order issued by the Commissioner.

DATE OF THIS ORDER:

SO ORDERED:

\_\_\_\_\_

\_\_\_\_\_  
Melanie Senter Lubin  
Maryland Securities Commissioner

Consented to:

\_\_\_\_\_  
Euclid Systems Corporation  
by Bruce H. DeWolfson

\_\_\_\_\_  
Date

On this \_\_\_\_\_ day of \_\_\_\_\_, 2004, personally appeared \_\_\_\_\_, signer of the foregoing Consent Order, who did acknowledge his signature to be his free act and deed.

\_\_\_\_\_  
Notary Public

My Commission expires: \_\_\_\_\_