

ADMINISTRATIVE PROCEEDING
BEFORE THE
MARYLAND SECURITIES COMMISSIONER

IN THE MATTER OF: *

INTERSECURITIES, INC. . * File No. 2003-0682

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. & 2005 Supp.) (the “Securities Act”) initiated an investigation into the activities of Robert Bruce Sando (“Sando”) (CRD #1132151), Wilford Riley Whorton, Jr. (“Whorton”) (CRD # 466057), Linda M. Sperry (“Sperry”) (CRD # 1293142), Thomas A. Guice (Guice”) (CRD # 2425808), and Malcolm W. Jensen (“Jensen”) (CRD # 258345), former registered representatives of InterSecurities, Inc. (“ISI”) (CRD # 16164); and

WHEREAS, in the course of its investigation of former registered representatives of ISI, the Maryland Securities Division (“Division”) pursued an investigation of ISI’s supervisory practices; and

WHEREAS, ISI has cooperated with the Division by producing records concerning its representatives’ conduct and its supervisory practices; 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, ISI, without admitting or denying any findings of fact or conclusions of law, except that ISI 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 findings and conclusions made herein are made for the purposes of this proceeding only and any other proceeding in which the Commissioner is a party. Nothing herein shall limit ISI's ability to contest these matters in any other litigation, proceeding or arbitration to which the Commissioner is not a party; and

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

NOW, THEREFORE, THE COMMISSIONER FINDS, CONCLUDES AND ORDERS and ISI consents, subject to the restrictions detailed herein:

Jurisdiction

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

FINDINGS OF FACT

Respondent and Maryland Agents Associated with Robert Bruce Sando

2. ISI is a broker-dealer headquartered in Florida with a principal place of business at 570 Carillon Parkway, St. Petersburg, FL 33716-1202. It has been registered with the NASD and the Division since 1984. ISI is also a federally covered investment adviser. ISI operates primarily through representatives who are located throughout the country. These representatives

often engage in independent business activities, such as the sales of insurance and tax services.

3. Sando was a representative of ISI registered with the NASD and the Division from November 1994, to October 7, 1998. ISI terminated Sando on October 6, 1998, for failure to disclose outside business activity, for failure to disclose private securities transactions, and for failure to cooperate with the firm's investigation. Before going to ISI, Sando was a registered representative with T.H.E. Financial Group, Ltd. (CRD # 14720) from March 1992 to November 1994, with Homestead Capital Corporation from April 1991 to December 1991, and with PFS Investments, Inc. (aka First American National Securities, Inc. (CRD # 1132151) from June 1983 until March 1991. Sando was also an investment adviser representative of ISI, effective July 23, 1996.

4. Sando worked out of his home. On December 20, 1995, he qualified to be a supervisor by taking the General Securities Principal (Series 24) exam and was registered as a principal and supervisor with the NASD. ISI made Sando an OSJ supervisor in February 1996.

5. Whorton was a representative of ISI registered with the NASD and the Division from April 1997, until October 30, 1998, when ISI terminated him. Sando was Whorton's OSJ supervisor until Sando was terminated by ISI.

6. In April 1997, at Sando's request, ISI agreed to register Whorton as a representative. Fifteen years earlier, Whorton had been the subject of a lawsuit and customer complaint alleging fraud in the offer and sale of securities. Both cases were settled. ISI made Whorton's registration contingent on Sando's agreeing to heightened supervision of Whorton. Sando agreed to provide special supervision to Whorton and to indemnify ISI for any damages that involve Whorton.

7. Guice was a representative of ISI registered with the NASD and the Division from January 1995 to July 1996. Guice was a registered representative of T.H.E. Financial Group, Ltd. from November 1993, to December 1994. His registration overlapped with that of Sando with both firms. Sando was Guice's designated OSJ supervisor from February of 1996 until July 1996.

8. Jensen was a representative of ISI registered with the NASD and the Division from March 1996, to October 13, 1998. Sando was Jensen's designated OSJ supervisor from March of 1996 until Sando was terminated by ISI on October 6, 1998.

9. Sperry was a representative of ISI registered with the NASD and the Division from January 16, 1995 until August 29, 1999, and with T.H.E. Financial Group, Ltd. from June 1, 1992 until December 14, 1994. Her registration overlapped with that of Sando with both firms. Sando was her designated OSJ supervisor from February of 1996 until Sando was terminated by ISI on October 6, 1998.

The Cash 4 Titles Program

10. Beginning in 1997, Sando began to sell unregistered promissory notes for Rolls Royce, Ltd. and Morning Star, Ltd., two companies that funded an entity known as Cash 4 Titles. Cash 4 Titles and its affiliated companies used offshore accounts to sell promissory notes that were purportedly backed by car title loans. Sando did not disclose these sales and activities to ISI and its compliance department.

11. The Cash 4 Titles program was the subject of an enforcement action brought by the Securities and Exchange Commission ("SEC"). *See SEC v. Homa, Gause et. al.* (Case No. 99CV06895), U.S. District Court for the Northern District of Illinois. On October 15, 1999, after

Sando had been terminated from ISI, the SEC caused a receiver to be appointed over the Cash 4 Titles program. The SEC described the program as a Ponzi scheme. The primary promoters of the Cash 4 Titles program, Charles Richard Homa and Michael Gause, have been convicted in federal court for their roles in the program.

12. Sando sold the Cash 4 Titles promissory notes as early as April 1997. He is believed to have continued his sales until the institution of the SEC action. Sando, himself, pled guilty to filing a false tax return by failing to disclose his commissions from the sale of these promissory notes. ISI actively supported and urged this prosecution of Sando.

13. Sando and his associates, including former ISI representatives Whorton, Sperry, Jensen and Guice, sold as much as \$20 million of Cash 4 Titles' promissory notes. None of these individuals disclosed these activities to ISI. ISI had entrusted Sando, an OSJ supervisor, with significant supervisory authority over these representatives.

SEI Trust Company Investors

14. On October 19, 1994, Sando, using his DBA Maryland Investment Group ("MIG"), executed a Master Asset Agreement with a predecessor of the mutual fund company, SEI Trust Company ("SEI"). This agreement allowed an investment adviser to direct investments of an investor in SEI mutual funds that are held at SEI. MIG has never been registered as an investment adviser. SEI continued its relationship with MIG after Sando became an investment adviser representative of ISI.

15. Sando also conducted business with SEI customers as an investment adviser representative of ISI. In February of 1997, ISI entered into a Master Asset Agreement with SEI. Sando conducted some of his business with SEI directly and did not process it through ISI. Upon

discovering this in 1998, ISI advised SEI not to accept further business from Sando without an ISI approved application. SEI apparently did not heed this guidance and continued to deal directly with Sando both as a representative of ISI and of his unregistered DBA. ISI did not review Sando's SEI business, whether that activity was conducted through MIG or as an investment advisory representative of ISI.

16. Some of Sando's customers at SEI liquidated mutual fund investments and forwarded proceeds of liquidations to Cash 4 Titles investments. These investments occurred both before and after Sando was terminated from ISI.

Supervision of Sando and Representatives

17. Throughout the period of time that Sando and the other specified representatives were associated with ISI, ISI maintained a system of written supervisory procedures that, in part, were designed to uncover and prevent the conduct engaged in by Sando. These procedures prohibited unapproved outside business activities or private securities transactions. Consistent with NASD Rules, ISI's procedures required Sando and the other representatives to notify ISI prior to engaging in any outside business activities and to receive permission in writing from ISI prior to engaging in any private securities transactions. On a regular basis, ISI inquired of Sando and the other representatives to assure they were not inappropriately engaging in such transactions. Sando and the other representatives falsely reported in writing to ISI's compliance department that they were not engaging in such activities.

18. On an annual basis, ISI conducted inspections of Sando's offices, reviewed selected files and questioned Sando with respect to outside business activities and private securities transactions. On each occasion prior to 1998, no evidence of such transactions was

revealed and Sando denied any such activities were occurring. Prior to 2000, ISI's inspection procedures did not call for the review of personal bank accounts or bank accounts of DBAs of representatives absent cause. Thus, ISI did not review Sando's personal and DBA bank records.

19. ISI regularly held compliance meetings with representatives and supervisors including Sando. The representatives were specifically warned not to sell "promissory notes."

20. ISI did not fully implement its compliance procedures with respect to its representatives at issue here. It also made its appointment of Whorton contingent on Sando's providing special supervision and agreeing to indemnify it for any damages, notwithstanding its policy that persons with "a history of private securities transactions (selling away) or illegal sale of unregistered securities" are not eligible for licensing. ISI appointed a representative to handle Sando's advisory accounts at SEI although she was not licensed as an investment adviser representative.

Termination of Sando

21. After it heard from another ISI representative that Sando might be engaged in improper transactions, it conducted surprise inspections of both Sando's and Whorton's offices. Sando refused to allow ISI access to records relating to his activities. Neither Sando nor Whorton advised ISI as to what they had done and Sando lied about his involvement with Cash 4 Titles. Sando did not identify the notes he was selling or that he was selling notes, but did reveal that he had advised some clients of offshore investment opportunities.

22. Based on its findings and Sando's refusal to cooperate with the investigation, ISI terminated him in October of 1998. Because Sando indicated he had told customers of foreign investment opportunities, ISI sent letters to approximately 270 customers who had accounts with

ISI. These letters advised that Sando was no longer with the firm but did not specifically provide that he had been terminated for cause. They also stated that the firm believed Sando had:

discussed with clients the opportunity to invest in financial products outside those available through ISI. Such outside products may include offshore accounts and/or automobile title loan financing investments. Neither of these investment programs are authorized or approved for sale through ISI If you have any questions about your investments purchased through Mr. Sando, including those not offered through ISI, please give me a call at

Few customers responded to the letter. Those customers with whom ISI representatives spoke did not voice any concerns about their dealings with Sando.

23. When ISI terminated Sando it did not forward individual letters to persons Sando dealt with at SEI who did not have ISI accounts. On November 10, 1998, however, ISI advised SEI that another representative was appointed for one of Sando's clients. The letter further advised that Sando had been terminated and that "Mr. Sando will not be able to transfer to another B/D, or conduct any advisory business." ISI did not at that time appoint another adviser to handle Sando's other clients with accounts at SEI. In March of 1999, a new representative was assigned to all of Sando's former ISI advisory clients. The new representative was not registered as an investment adviser representative. Even in March 1999, ISI did not advise SEI that Sando used a DBA, with the result that Sando continued to handle SEI accounts through his DBA. Sando had thirty-eight (38) clients who had investments at SEI who were investment advisory clients of ISI.

24. Upon Sando's termination, ISI notified the NASD by filing a Form U-5 through CRD, stating that Sando had been discharged for misconduct including refusing to cooperate with the company's investigation and failing to disclose outside business activities. ISI also

cooperated with the NASD's investigation of Sando. Effective August 30, 2001, the NASD barred Sando from association with a broker-dealer.

25. Although ISI had written compliance and supervisory procedures prohibiting and designed to prevent the conduct engaged in by Sando and the other representatives, the procedures did not prevent Sando's and the other representatives' sales of unregistered Cash 4 Title investments. Had ISI reacted to certain red flags, such as Sando's investment advisory activities directly with SEI, or had ISI adopted additional supervisory procedures and actions, including: (1) the review of Sando's personal bank accounts and the bank accounts of his DBAs; (2) the review of all of the transactions of Sando's clients at SEI; (3) providing more specific information to Sando's clients and the State of Maryland with regard to his termination and suspected wrongdoing; and (4) providing more specific information to SEI regarding Sando's termination, ISI may have identified Sando's and the other representatives' misconduct earlier and may have prevented some or all of the losses to investors.

Supervisory Changes Made After October 1998

26. ISI has revised its compliance procedures after the time that Sando was discharged and enhanced its procedures in light of Sando's misconduct. It now regularly conducts surprise audits as well as announced audits and instructs its auditors to review bank records of the registered representatives. ISI issued a new Compliance and Procedures Manual in December of 2000. Among other enhancements, provisions on outside business activities and private securities transactions were significantly supplemented. A Special Review Unit was formed at that time that, among other things, conducts selling away investigations. ISI's Selling Away Investigation Procedures were updated in August of 2001. ISI developed a Regional Compliance

Network (“RCN”) in 1998 and written RCN Procedures in early 2001.

27. ISI hired an outside consultant to review its supervisory procedures in light of the unauthorized sale of promissory notes by Sando and his associated representatives. To the extent the outside consultant identified any possible problem areas, ISI rectified those issues.

28. ISI also settled claims filed by many clients of Sando, Jensen, Whorton, Sperry and Guice. ISI has paid over \$2 million to settle claims. Other claims are still pending.

CONCLUSIONS OF LAW

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

29. ISI failed to reasonably supervise Sando and his associated representatives, in accordance with Section 11-412(a) (10) of the Securities Act.

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

SANCTIONS

30. In consideration of the settlement agreements in private litigation brought by clients of Sando and of persons associated with Sando, whereby ISI paid more than \$2 million to date, and in light of ISI’s cooperation mentioned above, ISI will pay to the Office of the Attorney General an amount not to exceed \$364,811.34 to be disbursed to certain ISI clients who purchased Cash 4 Titles promissory notes from Sando and his associated representatives, within fifteen days after the Office of the Attorney General provides ISI signed releases from these clients.

31. ISI shall cooperate with the Division to allow the Division to get in touch with the consultant hired to review its compliance procedures and provide a copy of any report.

32. For the two years following the signing of this Order, ISI shall provide copies of all

written complaints and summaries of any oral complaints brought by Maryland residents within 30 days of receipt of the complaint by ISI Compliance, correspondence relating to the complaints, responses to the complaints and any action taken by ISI.

33. On an annual basis for the two years following the signing of this Order, ISI shall provide:

- (a) A schedule of all examinations of representatives registered in Maryland completed within the previous year and an indication whether the examination was scheduled in advance or not and whether it was for cause or not; and
- (b) Any deficiency letters, responses and action taken arising out of examinations of representatives registered in Maryland completed within the previous year.

34. After two years from the date of this Order, the Commissioner, upon good cause, may modify the terms set forth in paragraphs (32) and (33) above by extending the reporting period up to three additional years.

If ISI fails to comply with any terms of this Order, the Commissioner may institute administrative or judicial proceedings against ISI to enforce this Order or to sanction ISI 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 ISI, 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 ISI pursuant to Md. Courts and

Judicial Proceedings Code Ann., Section 6-103 (2004 Repl. Vol.). Venue will be properly in that Court pursuant to Section 6-201(a) and 6-202(11) of the article.

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:

InterSecurities, Inc.
By:

Date

On this _____ day of _____, 2006, 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: _____