

BEFORE THE DIRECTOR
OF THE
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
DIVISION OF FINANCE AND CORPORATE SECURITIES
SECURITIES SECTION
STATE OF OREGON

In the Matter of:)	
)	CASE NO. 0-96-0002
PaineWebber Incorporated,)	
)	CONSENT ORDER
)	
Respondent.)	
_____)	

I.

FACTUAL FINDINGS

1. The Director of the Department of Consumer and Business Services for the State of Oregon (the "Director") has jurisdiction over this matter pursuant to Chapter 59 of the Oregon Revised Statutes, as amended (the "Oregon Securities Law").

2. PaineWebber Incorporated ("PaineWebber") is a broker-dealer registered in the State of Oregon.

3. PaineWebber has advised a multi-state special committee of its agreement to resolve Securities and Exchange Commission (the "SEC") proceedings relating to PaineWebber's offer and sale of certain direct investments.

4. PaineWebber requested the formation of the multi-state special committee, and in addressing state concerns, has

cooperated with the state officials conducting the multi-state coordinated review by, among other things, providing documentary evidence and other materials, and providing the multi-state special committee access to the relevant facts relating to PaineWebber's offer and sale of certain direct investment securities.

5. The Director has inquired into this matter and considered the relevant information relating to PaineWebber's offer and sale of certain direct investment securities.

6. PaineWebber has consented, without admitting or denying the matters set forth therein, to the issuance of an administrative order by the Securities and Exchange Commission, In the Matter of PaineWebber Incorporated, (Administrative Proceeding File No. 3-8928, January 17, 1996) (the "SEC Consent Order"), relating to the offer and sale of certain direct investment securities.

7. Pursuant to the SEC Consent Order, PaineWebber has consented to comply with its representation that it has paid and is obligated to pay an aggregate of \$292.5 million for the benefit of purchasers of direct investments sold by PaineWebber, as follows:

- a. PaineWebber has paid \$120 million and will pay an additional \$7.5 million by January 26, 1997, to resolve individual investor claims relating to direct investments;
- b. PaineWebber has paid \$125 million in cash pursuant to a settlement of the class actions

entitled In re: PaineWebber Limited Partnerships Litigation, Master File, 94 Civ. 8547, S.D.N.Y. (SHS), and Sidney Neidich v. Geodyne Resources, Inc., No. 94-052860, Harris County, Texas, 127th Judicial District (the "Class Actions"); and

- c. PaineWebber will establish a Claims Fund in the total amount of \$40 million for the benefit of investors in certain direct investments sold by PaineWebber.
8. Additionally, PaineWebber has consented to:
- a. the appointment of an independent consultant to review PaineWebber's policies and procedures concerning (i) its retail brokerage operations; and (ii) publicly disseminated sales materials and broker-only sales and marketing materials;
 - b. the maintenance of a Committee of PaineWebber's Board of Directors that will set policy for and monitor the firm's implementation of any changes recommended by the consultant and efforts to prevent and detect violations of the federal securities laws;
 - c. the entry of an SEC administrative Cease-and-Desist Order; and
 - d. a civil penalty of \$5 million.

9. PaineWebber, as part of an on-going effort to enhance compliance with the securities laws, has voluntarily implemented and will maintain significant remedial actions since the conduct alleged herein, including but not limited to:

- an automated Trade Monitor System that analyzes retail trade data and assists in the identification of potential sales practice issues;
- stricter hiring, promotion and termination practices;
- a conduct review committee designed to enhance compliance with applicable legal and regulatory requirements;
- a comprehensive review of the business and disciplinary history of all sales agents who had multiple reportable events to determine whether to impose disciplinary and/or additional supervisory measures;
- an Early Dispute Resolution program to promptly resolve valid customer claims; and
- modification of its sales agent compensation practices to eliminate (i) any differential paid for the sale of proprietary products; and (ii) increased commissions to sales agents based upon the number of trades executed.

II.

VIOLATIONS OF THE OREGON SECURITIES LAW

The SEC Consent Order describes the following:

1. PaineWebber violated certain of the anti-fraud provisions of the federal securities laws in connection with the marketing and sale of four direct investment programs -- PaineWebber/Geodyne oil and gas programs, PaineWebber Insured Mortgage Partners, PaineWebber Independent Living Mortgage Partners, and Pegasus Aircraft Partners. In this regard, certain material misstatements and omissions of material fact were contained in certain marketing materials that were used by some sales agents in the sale of these four programs relating to, among other things, the risks and rewards and rate of return of such investments.

2. PaineWebber sold direct investments, including but not limited to those above, to certain investors for whom such investment was not suitable in light of their individual financial status and investment goals.

3. PaineWebber failed to keep adequate books and records as required by the Oregon Securities Law in connection with certain purchases or sales of direct investments on the secondary market.

4. PaineWebber failed to reasonably supervise certain sales agents and other employees who prepared, offered and sold direct investments.

The foregoing constitutes a violation of Section 59.135 of the Oregon Securities Law as to 1. and 2. above, Section

59.195(1) of the Oregon Securities Law as to 3. above, and Section 59.205(13) of the Oregon Securities Law as to 4. above.

III.

ORDER

THEREFORE, on the basis of the foregoing, and PaineWebber's waiver of its right to a hearing and appeal under the Oregon Securities Law with respect to this Consent Order, and PaineWebber's admission of jurisdiction of the Director, the Director finds that PaineWebber, for the sole purpose of settling this proceeding and without admitting or denying the matters herein, has consented to the entry of this Order and that the following Order is appropriate, in the public interest and necessary for the protection of investors:

IT IS ORDERED, pursuant to Section 59.245(4) of the Oregon Securities Act, that PaineWebber CEASE AND DESIST from future violations of the Oregon Securities Act.

IT IS FURTHER ORDERED, pursuant to ORS 59.995, that PaineWebber shall pay a civil penalty to the State of Oregon in the amount of Twenty Thousand Dollars (\$20,000). Pursuant to ORS 293.090, PaineWebber agrees to pay an additional sum of Forty-Nine Thousand, Five Hundred Sixty-Eight Dollars (\$49,568) to the Department of Consumer and Business Services as a contribution to the Oregon Investor Education Fund. The two payments shall be made by separate checks, each made payable to the "State of Oregon."

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 Director against PaineWebber and its predecessors, subsidiaries and affiliates for violations arising as a result of or in connection with any actions or omissions by PaineWebber and/or any of its associated or affiliated persons or entities involving the offer or sale of the direct investment securities listed in attached Exhibit A and is in lieu of further civil or administrative proceedings.

IT IS ORDERED that this Order does not include any releases as to any co-sponsors of PaineWebber in connection with the direct investment securities which are the subject of this order.

IT IS ORDERED that this Order does not limit or create any purchaser's private remedies against PaineWebber or others for the direct investment securities, or PaineWebber's defenses thereto.

IT IS ORDERED that, 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 Director and PaineWebber in accordance with this Order.

IT IS ORDERED that any violations of the related SEC Consent Order shall be deemed violations of this Order.

IT IS ORDERED that this Order constitutes and includes a waiver based on a finding of good cause by the Director of any and all limitations and disqualifications that may ensue from the

entry of this Order, orders issued by other state authorities relating to the matters described herein, the SEC Consent Orders or the Court Order entered in the SEC action establishing the Claims Fund that would otherwise affect, restrict or limit the business of PaineWebber 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 Oregon.

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

BY ORDER OF THE DIRECTOR

EXECUTED this the 22nd day of April, 1996.

Name: Kerry Barnett
Kerry Barnett, Director
Department of Consumer and Business Services

CORPORATE CONSENT TO ENTRY OF ORDER

I, Herbert F. Janick, III, state that I am an officer of PAINWEBBER INCORPORATED (PAINWEBBER), and I am authorized to act on its behalf; that I have read the foregoing Order and that I know and fully understand the contents hereof; that PAINWEBBER has been advised of its right to a hearing and of its right to be represented by counsel in this matter.

PAINWEBBER admits the jurisdiction of the Director and, without admitting or denying the Factual Findings contained in the Order, PAINWEBBER consents to entry of this Order by the Director as settlement of the issues contained in this Order.

PAINWEBBER states that no promise of any kind or nature whatsoever was made to induce PAINWEBBER to enter into this Order and that PAINWEBBER, voluntarily and without any force or duress, consents to the entry of this Order without further hearing, expressly waiving any right to a hearing in this matter.

PAINWEBBER understands that the Director reserves the right to take further actions to enforce this Order or to take appropriate action upon discovery of other violations of the Oregon Securities Law; and PAINWEBBER agrees that it will fully comply with the terms and conditions stated herein.

PAINWEBBER further assures the Director that neither PAINWEBBER nor its officers, directors, employees or agents will effect securities transactions in Oregon unless such activities are in full compliance with Chapter 59 of the Oregon Securities Revised Statutes.

I understand that this Consent Order is a public document.

Dated this 18th day of April, 1996.

By 
(Signature of Officer)

General Counsel / Private Client Group
(Office Held)

CORPORATE ACKNOWLEDGEMENT

There appeared before me this 18th day of April,
1996 Herbert F. Janick, III, who was first duly sworn on oath,
and stated that he was and is the General Counsel of PAINWEBBER
INCORPORATED, and that he is authorized and empowered to sign
this Consent to Entry of Order on behalf of PAINWEBBER and to
bind PAINWEBBER to the terms hereof.

Maureen Vollers
Notary Public for the State of New Jersey

Maureen Vollers
Printed Name of Notary Public

My commission expires: May 13, 1997

MAUREEN VOLLERS
Notary Public, State of New Jersey
No. 2100309
Qualified in Hudson County
Commission Expires May 13, 1997