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California Corporations Commissioner  
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Deputy Commissioner  
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6 Attorneys for Complainant

7  
8 BEFORE THE DEPARTMENT OF CORPORATIONS  
9 OF THE STATE OF CALIFORNIA

10 In The Matter of  
11 THE CALIFORNIA CORPORATIONS  
12 COMMISSIONER

CASE NO. 14667

13 Complainant,

ORDER REGARDING ANCILLARY  
RELIEF

14 v.

15 BROOKSTREET SECURITIES CORPORATION,  
16 STANLEY CLIFTON BROOKS

17 Respondents.  
18  
19

20 Complainant, The California Corporations Commissioner ("Commissioner") issues a final  
21 administrative consent order pursuant to California Corporations code sections 25610 and 25254 and  
22 finds that:

23 **I. RESPONDENTS**

24 1. Brookstreet Securities Corporation ("Brookstreet") is a California corporation with its  
25 principal place of business located at 2361 Campus Drive, #210, Irvine, California 92612.  
26 Brookstreet, formerly known as TMG Securities, Inc., has held a broker-dealer certificate issued by  
27 the Commissioner since August 15, 1985.

28 2. Stanley Clifton Brooks ("Brooks") is the president of Brookstreet. Brooks has been

1 approved by the Commissioner to act as an agent of Brookstreet in California since 1989. Brooks is  
2 a general securities principal of Brookstreet.

3 **II. CIVIL ACTION**

4 3. On or about September 30, 2003, the Commissioner commenced a civil action titled  
5 The People of the State of California v. Brookstreet Securities Corporation, et al., in the Orange  
6 County Superior Court, Case Number 03CC00434. On or about January 9, 2004, the Commissioner  
7 filed a First Amended Complaint in this civil action against the same parties, alleging the same  
8 violations and seeking the same relief (referenced hereafter as "Civil Action").

9 4. Besides naming Brookstreet and Brooks as Defendants in the Civil Action, the  
10 Commissioner also sued as Defendants, Stanley Clifton Brooks ("Brooks"), Stephen Paul Washburn  
11 ("Washburn") Kathleen Margaret McPherson ("McPherson") and Dana Niles Frankfort  
12 ("Frankfort").

13 5. Washburn was an executive vice president of Brookstreet. Washburn has been  
14 approved by the Commissioner to act as an agent of Brookstreet in California since 1992. Washburn  
15 was a general securities principal, a Senior Registered Options Principal ("SROP"), and a  
16 Compliance Registered Options Principal ("CROP") for Brookstreet.

17 6. Dana Niles Frankfort has been approved by the Commissioner to act as an agent of  
18 Brookstreet in California since April 2000. Prior to this date, Frankfort was approved by the  
19 Commissioner to act as an agent in California with other licensed broker dealers.

20 7. McPherson was an executive vice president of Brookstreet. McPherson has been  
21 approved by the Commissioner to act as an agent of Brookstreet in California since 1996.  
22 McPherson is a general securities principal and the Compliance Officer of Brookstreet.

23 8. The allegations in the First Amended Complaint filed in the Civil Action serve as a  
24 basis for institution of this administrative action and the issuance of an Order Regarding Ancillary  
25 Relief by the Commissioner. Solely for the purpose of this administrative action, and any other  
26 proceeding brought by or on behalf of the Commissioner or in which the Commissioner is a party,  
27 and without admitting the allegations in the civil action (except Respondents admit the jurisdiction  
28 of the Commissioner over them and over the subject matter of these proceedings), Respondents

1 consents to the entry of this Order Regarding Ancillary Relief ("Final Order") by the Commissioner.

2 **III. MATERIAL CONTENTIONS**

3 The material contentions alleged by the Commissioner against Respondents are as follows:

4 9. Beginning in May 2000 and continuing thereafter until at least December 2001,  
5 Brookstreet, through Frankfort, violated the California Corporations Code and the Commissioner's  
6 regulations thereunder with respect to transactions conducted in five brokerage accounts held on  
7 behalf of three Brookstreet customers (referenced collectively hereafter as the "Customers").  
8 Frankfort was the sales agent handling each of these customers' accounts.

9 10. Brookstreet, through Frankfort, recommended and executed purchases and sales of  
10 securities pursuant to unsuitable investment trading strategies in the Customers' accounts at  
11 Brookstreet in contradiction of the Customers' objectives, risk tolerance levels and financial needs in  
12 violation of California Code of Regulations, title 10, section 260.218.2.

13 11. Brookstreet and Frankfort defrauded customers through churning, executing risky  
14 trading strategies and failing to disclose material facts to their customers concerning the risks of  
15 margin trading and equity options trading in violation of Corporations Code section 25216,  
16 subdivision (a).

17 12. Brookstreet failed to supervise Frankfort's securities activities in violation of  
18 California Code of Regulations, title 10, section 260.218.4, subdivison (a), and failed to enforce  
19 Brookstreet's written policies and procedures to comply with the duties imposed by subsections (2)  
20 and (3) of under California Code of Regulation, title 10, section 260.218.4, subdivision (c).

21 13. Brookstreet and Brooks have denied the allegations of paragraphs 9 through 12 and  
22 maintain the position that no violation of law or regulations has occurred.

23 14. It is the intention of the parties to resolve the Civil Action by way of this  
24 administrative action and the issuance of this Final Order by the Commissioner.

25 **IV. ORDER**

26 **BASED ON THE FOREGOING, AND GOOD CAUSE APPEARING THEREFOR, THE**  
27 **COMMISSIONER HEREBY ORDERS as follows:**

28 15. Brookstreet and Brooks will at all times remain in compliance with Corporations

1 Code section 25218 and California Code of Regulations, title 10, sections 260.218.2, and 260.218.4,  
2 subdivisions (a), (c)(2) and (c)(3).

3 16. Pursuant to Corporations Code section 25254(b), as ancillary relief, Brookstreet shall  
4 pay to the Commissioner the sum of \$ 165,000 representing the investigative costs and expenses  
5 of the Department of Corporations. Such payment shall be made in 10 monthly installments of  
6 \$ 16,500.00 each, with the first payment to be made on or before December 3, 2004 by check

7 payable to the Department of Corporations, and hand-delivered or mailed to Virginia Jo Dunlap at  
8 the Department of Corporations, 1515 K St. #200, Sacramento ~~320 West 4<sup>th</sup> Street, Suite 450, Los Angeles, California 90013-~~

9 2344.95814. In the event Brooks sells Brookstreet prior  
10 to the expiration of the 10 months of payments, the total  
11 even 17. unpaid shall be due and payable at the next regular  
12 installment date. Pursuant to Corporations Code section 25254 as ancillary relief, Brookstreet shall

13 retain the services of an Outside Independent Consultant ("Consultant") subject to the following  
14 terms and conditions.

15 A. Brookstreet shall continue to retain as a Consultant, at its sole expense, the  
16 services of Lisa Roth, President of ComplianceMax Financial, who was appointed pursuant a  
17 settlement of a proposed enforcement action by the National Association of Securities Dealers  
18 ("NASD") against Brookstreet et al., No. C02030010, dated February 12, 2003 by way of a Letter of  
19 Acceptance, Waiver, and Consent ("AWC"). (A copy of the AWC is attached hereto and  
20 incorporated by reference as Exhibit 1). Brookstreet shall continue to retain Consultant for a period  
21 commencing from the effective date of this Final Order and continuing for two years following the  
22 expiration of the consultant requirement under the NASD AWC. Neither the Commissioner, the  
23 State of California, the Department of Corporations, nor any officer, employee or agent of the  
24 Department of Corporations, shall have any liability for the payment, at any time, for any fees or  
25 expenses of the Consultant.

26 B. Consultant shall continue to conduct a review of, and prepare written reports and  
27 make recommendations as to the adequacy of Brookstreet's supervisory and compliance policies and  
28 procedures and its system for applying such procedures. The Consultant's review and reports shall  
recommend, and Brookstreet shall adopt, implement and maintain adequate procedures with respect  
to, without limitation, the following matters:

- 1                           1) Brookstreet's policies and procedures for OSJ (Office of Supervisory
- 2 Jurisdiction) audits including whether those policies and procedures require that its examiners
- 3 review an adequate sample of customer accounts;
- 4                           2) The adequacy of Brookstreet's exception reports and the procedures for
- 5 review, detection of exceptions and possible rules violations and response to, and retention of, such
- 6 reports;
- 7                           3) Brookstreet's policies, procedures and practices relating to its receipt of,
- 8 and response to, customer complaints made to its compliance department or to any registered person
- 9 or branch office;
- 10                          4) Brookstreet's procedures, and where necessary, heightened supervision, for
- 11 reviewing and monitoring the solicitation of retail purchases and sales, and the suitability and
- 12 customer authorization of trading activity in customer accounts;
- 13                          5) Brookstreet's system for supervising the personal sales activities of OSJ
- 14 Principals and other managers;
- 15                          6) The sufficiency of Brookstreet's firm element training portion of its
- 16 continuing education program, to the extent that it deals with the policies and procedures specifically
- 17 adopted pursuant to this Final Order; and
- 18                          7) Brookstreet's policies and procedures designed to prevent and detect
- 19 California Securities Law violations of the nature involved in this matter, including trading in
- 20 customers' accounts that involves excessive trading (churning), options trading, and unsuitable
- 21 recommendations;
- 22                          C. Brookstreet shall continue to implement the changes in supervision and
- 23 compliance policies and procedures adopted by the firm since 2001 that are designed to detect and
- 24 prevent potential misconduct and future violations of securities laws and regulations that include:
- 25                           1) The creation of the National Branch Compliance Manager ("NBCM")
- 26 position specifically to implement the following enhanced policies and procedures. The NBCMs
- 27 shall continue to review and supervise all securities transactions handled by producing managers,
- 28 and to review the securities transactions handled by other agents in the NBCMs' respective

1 territories.

2 (a) The NBCMs shall continue to utilize computerized exception  
3 reports on a daily, weekly and monthly frequency as necessary to diligently supervise the sales  
4 practices of its agents. These reports and the frequency of their review shall include, without  
5 limitation:

- 6 (1) Changes in net worth (monthly);
- 7 (2) Commission percentage report (daily);
- 8 (3) Concentration report (monthly), which may flag  
9 accounts for manual suitability review by compliance  
10 personnel;
- 11 (4) Email surveillance report (daily);
- 12 (5) Low priced securities report (monthly);
- 13 (6) Velocity report (monthly);
- 14 (7) Options reports (weekly);
- 15 (8) Discretionary report (monthly);
- 16 (9) Mutual fund switch report (monthly); and
- 17 (10) Front running report (monthly).

18 (b) Brookstreet's NBCMs shall conduct a further review of accounts  
19 identified or flagged on these reports as warranted, and such review may include a manual review of  
20 accounts for suitability, or contact with customers, or any other action as necessary so as to detect  
21 and prevent agent misconduct and to prevent violations of securities law.

22 D. Consultant shall not be required to submit an initial written report upon the  
23 effective date of the Final Order, however, within 10 days of the effective date of the Final Order,  
24 Brookstreet shall require the Consultant to provide to the Commissioner, all reports prepared as of  
25 the effective date of this Final Order pursuant to the AWC referenced in paragraph 17A.  
26 Additionally, Brookstreet shall require the Consultant to simultaneously submit to the  
27 Commissioner, all subsequent reports the Consultant prepares and sends to Brookstreet and the  
28 NASD pursuant to the AWC, which includes the Quarterly Review Reports, the Final Report and

1 any other reports prepared by the Consultant. Additionally, Brookstreet shall submit to the  
2 Commissioner, simultaneously with the submission to the NASD, the affidavit setting forth the  
3 details of its efforts to implement the recommendations contained in the Consultant's Final Report  
4 under the AWC and stating whether it has achieved compliance as required in paragraph II B 4 j) of  
5 the AWC.

6 E. Over the period from the effective date of this Final Order through two years  
7 following the expiration of the consultant requirement under the NASD AWC, Consultant or another  
8 person not unacceptable to the Commissioner shall perform 7 quarterly reviews ("Quarterly  
9 Reviews") to determine whether Brookstreet has adopted and implemented the Consultant's  
10 recommendations. The Consultant shall commence conducting Quarterly Reviews of Brookstreet in  
11 accordance with this Final Order beginning in the quarter following Consultant's final Quarterly  
12 Review conducted under paragraph II B 4 e) of the AWC. Consultant's report from the first  
13 Quarterly Review conducted under this Final Order shall be submitted within ten business days after  
14 the completion of such Quarterly Review. Brookstreet shall require that the Consultant  
15 simultaneously submit a complete written report to Brookstreet and to the Commissioner within ten  
16 business days after the completion of each Quarterly Review.

17 F. Within ten business days following receipt of each Quarterly Review report,  
18 Brookstreet shall respond in writing to the Consultant's comments, including, without limitation, a  
19 written statement to the Consultant and the Commissioner, in writing, that it will adopt, implement  
20 and maintain any additional policies and procedures recommended by the Consultant in such  
21 Quarterly Review report; provided, however, that as to any recommendation of Consultant which  
22 Brookstreet determines is, in whole or in part, unduly burdensome or impractical, Brookstreet, with  
23 the consent of its Board of Directors, may suggest an alternative policy or procedure designed to  
24 achieve the same objective or purpose as that of the recommendations of the Consultant.  
25 Brookstreet shall set forth in writing to the Consultant, a copy of which shall be simultaneously sent  
26 to the Commissioner, such alternative procedure(s), a certification that such alternative procedure(s)  
27 has been presented to and approved by the Board of Directors of Brookstreet, and shall describe how  
28 such alternative procedure(s) achieves the same objective or purpose as the Consultant's original

1 recommendation. Brookstreet and the Consultant shall then attempt, in good faith, to reach an  
2 agreement on any policy and procedure as to which there is a dispute. If there is a dispute over a  
3 policy or procedure recommended by the Consultant then the Consultant shall, in good faith,  
4 evaluate Brookstreet's alternative policy or procedure. Subject to the foregoing sentence,  
5 Brookstreet shall, however, abide by the determination of the Consultant with regard thereto and  
6 adopt those recommendations deemed appropriate by the Consultant.

7 G. Brookstreet shall compile and disseminate to all account executives and  
8 supervisory personnel any revised or supplemental procedures adopted pursuant to the Consultant's  
9 review and recommendations in the form of compliance memoranda and/or revised sections of the  
10 firm's compliance manual, which shall be disseminated upon adoption of such revised or  
11 supplemental procedures.

12 H. Brookstreet shall require that the Consultant complete the aforementioned reviews  
13 and submit a written final report ("Final Report") thereon to Brookstreet and the Commissioner  
14 within two years after the effective date of this Final Order or within thirty days following the  
15 completion of the seventh Quarterly Report, whichever is later. The Final Report shall recite the  
16 efforts the Consultant undertook to review Brookstreet's supervisory functions, compliance  
17 mechanisms, and other policies and procedures; shall set forth any additional recommendations and  
18 proposals and a reasonable time period or time periods, not to exceed one year from the date of the  
19 Final Report, for Brookstreet to implement each of those recommendations; and shall describe how  
20 Brookstreet has implemented the Consultant's recommendations and proposals.

21 I. Brookstreet shall take all necessary and appropriate steps to adopt and implement  
22 all recommendations and proposals contained in the Consultant's Final Report; provided, however,  
23 that Brookstreet may follow the procedures stated in Paragraph 17F if it determines that any  
24 recommendation contained in Consultant's Final Report is, in whole or in part, unduly burdensome  
25 or impractical.

26 J. No later than one year after the date of the Consultant's Final Report, Brookstreet  
27 shall submit to the Commissioner an affidavit setting forth the details of its efforts to implement the  
28 recommendations contained in the Final Report and stating whether it has achieved compliance.



1 K. For good cause shown, and upon receipt of a timely application from the  
2 Consultant or Brookstreet, the Commissioner may extend any of the procedural dates set forth in this  
3 Final Order.

4 L. The Consultant may engage such assistance, clerical, legal or expert, as necessary  
5 and at reasonable cost, to carry out his or her other activities and the cost, if any, of such assistance  
6 shall be borne exclusively by Brookstreet.

7 M. If the Consultant resigns or is unable to complete duties for any reasons,  
8 Brookstreet shall engage a Consultant not unacceptable to the Commissioner and provide the  
9 Commissioner in writing a copy of an engagement letter detailing the Consultant's responsibilities  
10 and areas of review as required by this Final Order.

11 O. To ensure the independence of the Consultant, Brookstreet:

12 1) shall not have the authority to terminate the Consultant, without the prior  
13 written approval of the Commissioner;

14 2) shall compensate the Consultant, and persons engaged to assist the  
15 Consultant, for services rendered pursuant to this Final Order at their reasonable and customary  
16 rates;

17 3) shall not, without prior written consent of the Commissioner, enter into  
18 any legal, business, or other financial relationship with Consultant, any firm with which he or she is  
19 affiliated or of which he or she is a member, or any person engaged to assist the Consultant in the  
20 performance of his or her duties under this Final Order, during the period of their engagements and  
21 for a period of two years following the completing of their duties described in this Final Order; and

22 4) shall not be in and shall have, an attorney-client relationship with the  
23 Consultant and shall not seek to invoke the attorney-client or any other doctrine or privilege to  
24 prevent the Consultant from transmitting any information, reports, or documents to the  
25 Commissioner or the Commissioner's staff.

26 18. Brookstreet shall continue special supervision of Frankfort for a period of five years  
27 from the effective date of this Final Order, unless this is modified by written order of the  
28 Commissioner.



1 Brookstreet Securities Corporation

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3 **PROOF OF SERVICE**  
4 [Corporations Code § 25550]

5 I, the undersigned, declare that I am over the age of eighteen (18) years, and not a party to the  
6 within entitled action. I am employed by the California Department of Corporations, 1515 K Street,  
Suite 200, Sacramento, California 95814.

7 On the date listed below, I served the following document(s):

8 **ORDER REGARDING ANCILLARY RELIEF**

9 on the individuals or companies at the addresses listed below:

|  |  |
|--|--|
| 11 Stanley Brooks  |  |
| 12 Joseph E. Floren,<br>Counsel for Brookstreet Securities Corporation<br>and Stanley Brooks |  |

14 0 VIA CERTIFIED U.S. POSTAL SERVICE MAIL: by placing a true and correct copy of the  
15 aforementioned document(s) in a sealed envelope, postage prepaid, with a return receipt  
16 requested and placing the envelope in the mail depository at my place of business. Certified  
Mail Receipt Number \_\_\_\_\_.

17 (X) PERSONAL DELIVERY by hand delivering a true and correct copy of the aforementioned  
18 document(s) to the addressee(s) listed above on November 22, 2004, in Santa Ana, California.

19  
20 I declare under penalty of perjury under the laws of the State of California that the foregoing  
21 is true and correct. Executed on November 23, 2004, at Sacramento, California.

22 VIRGINIA JO DUNLAP  
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