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STATE OF CALIFORNIA
BUSINESS, TRANSPORTATION AND HOUSING AGENCY
DEPARTMENT OF CORPORATIONS

TO: Kevin Lee Cronic
L.Q. Distribution
L.Q. Distribution, Inc.
Davis, California
CRD #s 2397515 and 2005027

DESIST AND REFRAIN ORDER

(For violations of sections 25110 and 25401 of the Corporations Code)

The California Corporations Commissioner finds that:

1. Kevin Lee Cronic (“Cronic”) is an individual residing in Davis, California. From August of 1993 through September of 2002 Cronic was employed as a registered representative by a series of broker-dealer firms. Cronic has two numbers in the Central Registration Depository (CRD) System of the NASD: 2397515 and 2005027.

2. From May to September of 1999 Cronic was a registered representative for Round Hill Securities, Inc. During that time Cronic became acquainted with a Sacramento couple, both aged over sixty, who were clients of one of the other representatives of the firm. In September of 1999 the couple’s representative left the securities industry, so the couple began to use Cronic as their broker and investment adviser. They remained Cronic’s clients as Cronic moved to Sunamerica Securities from November, 1999 to June, 2000, and then to Morgan Stanley Dean Witter Inc. (“Morgan

1 Stanley”) in June of 2000. Cronic remained at Morgan Stanley until his employment there was
2 terminated in September of 2001.

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4 3. In or about June of 2001, Cronic recommended to the couple that they invest in a hedge
5 fund called L.Q. Distribution, Inc. Cronic represented that he had made successful personal
6 investments in the fund and that it was managed by two dependable friends of his who had
7 experience with a well-known financial firm. In reliance upon Cronic’s recommendation and
8 representations, the couple made initial investments of \$50,000 in June of 2001 and \$100,000 in July
9 of 2001 in L.Q. Distribution, Inc.

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11 4. The couple received monthly letters which purported to reflect that their money was
12 invested with “L.Q. Distribution, Inc.” at 268 Bush Street #4309, San Francisco, CA 94104. They
13 also received documents reflecting that L.Q. Distribution, Inc. maintained an “Administration Office”
14 at 101 California St. in San Francisco, California. The monthly letters they received reported regular
15 profits from investments denominated as “units” of Magellan Ships, Inc. and Magellan Furnishings.

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17 5. After Cronic’s employment by Morgan Stanley was terminated in September of 2001,
18 Cronic was no longer licensed to act as either an investment adviser or a broker-dealer. He did not
19 inform the couple of that fact. They continued to believe that he was a licensed financial professional
20 and he continued to meet with them regularly at their home.

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22 6. In continued reliance upon Cronic, the couple made at least sixteen additional investments
23 in L.Q. Distribution, Inc. from February, 2002 through September of 2003, in a total amount of at
24 least \$482,000. Throughout that period the couple continued to receive monthly letter statements
25 which reported that profits were being earned from fund investments and were then being rolled over
26 into new investments.

1 7. The Bush Street address of L.Q. Distribution, Inc. is a Mail Boxes, Etc. and #4309 is a box
2 that Cronic rented there. The funds the couple gave to Cronic for investment in L.Q. Distribution
3 were deposited by Cronic into a checking account Cronic opened at Bank of America in Davis in the
4 name L.Q. Distribution in December, 2000. Cronic stated on the account signature card that L.Q.
5 Distribution was a sole proprietorship and that he was the only person authorized to sign on its
6 behalf.

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8 8. In late 2003 the couple stopped receiving monthly letters from L.Q. Distribution, Inc. and
9 began to feel concern about their investments. They asked Cronic for repayment of a portion of their
10 funds. Cronic offered an excuse. He claimed that it was necessary to wait for prior investments to
11 mature before the requested repayment could be made. When the supposed maturity date passed,
12 however, Cronic still failed to make the requested repayment, offering a new and inconsistent excuse.
13 The couple then asked Cronic to return all of their invested funds. He initially stated that he would
14 do so but then offered a series of excuses until he eventually stopped returning their phone calls.
15 They have not received repayment of any portion of their investment principal.

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17 9. The Department of Corporations has not issued a permit or other form of qualification
18 authorizing any person to offer and sell securities in the form of investments in L.Q. Distribution, Inc.
19 in this state.

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21 Based upon the foregoing findings, the California Corporations Commissioner is of the
22 opinion that the investments in the purported hedge fund L.Q. Distribution, Inc. were securities that
23 were subject to qualification under the California Corporate Securities Law of 1968 which were
24 offered and sold by Kevin Lee Cronic without being qualified in violation of Corporations Code
25 section 25110. Pursuant to section 25532 of the Corporate Securities Law of 1968, Kevin Lee Cronic
26 is hereby ordered to desist and refrain from the further offer or sale in the State of California of the
27 securities unless and until qualification has been made under the law.

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1 Further, the California Corporations Commissioner is of the opinion that the securities were
2 offered or sold in this state by means of material misrepresentations and by means of communications
3 which omitted to state material facts necessary in order to make the statements made, in the light of
4 the circumstances under which they were made, not misleading, in violation of section 25401 of the
5 Corporate Securities Law of 1968. Kevin Lee Cronic failed to inform the couple that the address of
6 L.Q. Distribution, Inc. on Bush Street in San Francisco was a mail drop box he had rented. He failed
7 to inform the couple that the funds they thought they were investing in L.Q. Distribution, Inc. were in
8 fact going into a checking account he had opened in the name of L.Q. Distribution, a sole
9 proprietorship, and that the money in that account was being used by him to pay his own personal
10 living expenses. Kevin Lee Cronic failed to inform the couple that following termination of his
11 employment by Morgan Stanley Dean Witter in September of 2001 he was not licensed to sell them
12 securities or to provide them investment advice. He failed to inform them that no permit had been
13 issued by the Department of Corporations to authorize the offer and sale of investments in L.Q.
14 Distribution, Inc. in California.

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16 Pursuant to section 25532 of the Corporate Securities Law of 1968, Kevin Lee Cronic is
17 hereby ordered to desist and refrain from offering or selling or buying or offering to buy any security
18 in the State of California, including but not limited to investments in L.Q. Distribution, Inc. by means
19 of any written or oral communication which includes an untrue statement of a material fact or omits
20 to state a material fact necessary in order to make the statements made, in the light of the
21 circumstances under which they were made, not misleading.

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23 Dated: May 23, 2005
24 Sacramento, California

25 WAYNE STRUMPFER
26 Acting California Corporations Commissioner

27 By _____
28 Alan S. Weinger
Acting Deputy Commissioner
Enforcement Division