

BEFORE THE ADMINISTRATOR OF SECURITIES
OF THE
STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF BANKING, SECURITIES AND CORPORATIONS
P.O. Box 110807
Juneau, AK 99811-0807

In the Matter of:

PaineWebber Incorporated,

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CASE NO. 96-09 S (ORIGINAL)
CONSENT ORDER

I.

BACKGROUND

1. The Administrator of Securities (the "Administrator") has jurisdiction over this matter pursuant to Alaska Code §45.55.010 et seq., as amended (the "Alaska Securities Act").
2. PaineWebber Incorporated ("PaineWebber") is a broker-dealer registered in the State of Alaska.
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 Administrator has inquired into this matter and considered the relevant information relating to PaineWebber's offer and sale of certain direct investment securities.

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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:

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- 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;

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- 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 ALASKA SECURITIES ACT

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 Alaska Securities Act in connection with certain purchases or sales of direct investments on the secondary market.

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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 45.55.010 of the Alaska Securities Act as to 1. and 2. above, Section 45.55.050(a) of the Alaska Securities Act as to 3. above, and Section 45.55.060(b)(1) of the Alaska Securities Act 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 Alaska Securities Act with respect to this Consent Order, and PaineWebber's admission of jurisdiction of the Administrator, the Administrator 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 45.55.920(a)(1)(A) of the Alaska Securities Act, that PaineWebber CEASE AND DESIST from future violations of the Alaska Securities Act.

IT IS FURTHER ORDERED, pursuant to mutual agreement, that PaineWebber shall pay the amount of Twenty-Nine Thousand Eight Hundred Ninety-Seven Dollars (\$29,897) to the State of Alaska, Department of Commerce and Economic Development, to be deposited into the general fund with the intention of enhancing investor protection and expanding public awareness through acquisition of new technology and updated equipment.

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 Administrator

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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 Administrator 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 Administrator 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

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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 Alaska.

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

BY ORDER OF THE ADMINISTRATOR
EXECUTED this the 21st day of February, 1996.

/s/ Willis F. Kirkpatrick
Willis F. Kirkpatrick
Administrator of Securities

CONSENT TO ENTRY OF ORDER BY RESPONDENT

PaineWebber hereby acknowledges that it has been served with a copy of this Order, has read the foregoing BACKGROUND and ORDER, is aware of its right to a hearing and appeal in this matter, and has waived same.

PaineWebber admits the jurisdiction of the Administrator, neither admits nor denies the BACKGROUND contained in the Order, and consents to entry of this Order by the Administrator as settlement of the issues contained in this Order.

PaineWebber states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.

Herbert F. Janick, III represents that he is General Counsel of PaineWebber and that, as such, has been authorized by PaineWebber to enter into this Order for and on behalf of PaineWebber.

DATED this 18th day of April, 1996.

/s/ Herbert F. Janick, III
PAINWEBBER INCORPORATED

PAINWEBBER/EXHIBIT A

PaineWebber/Geodyne Energy Income Program I-D
PaineWebber/Geodyne Energy Income Program I-E
PaineWebber/Geodyne Energy Income Program I-F
PaineWebber/Geodyne Energy Income Program II-A
PaineWebber/Geodyne Energy Income Program II-B
PaineWebber/Geodyne Energy Income Program II-C
PaineWebber/Geodyne Energy Income Program II-D
PaineWebber/Geodyne Energy Income Program II-E
PaineWebber/Geodyne Energy Income Program II-F
PaineWebber/Geodyne Energy Income Program II-G
PaineWebber/Geodyne Energy Income Program II-H
PaineWebber/Geodyne Energy Income Program III-A
PaineWebber/Geodyne Energy Income Program III-B
PaineWebber/Geodyne Energy Income Program III-C
PaineWebber/Geodyne Energy Income Program III-D
PaineWebber/Geodyne Energy Income Program III-E
PaineWebber/Geodyne Energy Income Program III-F
PaineWebber/Geodyne Energy Income Program III-G
PaineWebber/Geodyne Institutional/Pension Energy Income Program 1-8
PaineWebber Income Properties 7-8
PaineWebber Equity Partners 1-3
PaineWebber Growth Partners 3
PaineWebber Development Partners 4
PaineWebber R&D Partners 1-3
PaineWebber Mortgage Partners 5
PaineWebber Independent Living Mortgage
PaineWebber Independent Living Mortgage II
PaineWebber Insured Mortgage Partners I-A
PaineWebber Insured Mortgage Partners I-B
Pegasus I
Pegasus II
Fiduciary Capital Partners
Fiduciary Capital Pension Partners
Kagan Media Partners
Retail Property Investors
PaineWebber Preferred Yield
PaineWebber Preferred Yield II
Participating Income Properties 3
PaineWebber Guaranteed Futures Fund

In addition to the foregoing, ELIGIBLE DIRECT INVESTMENTS shall include the following public limited partnership interests to the extent that they were purchased from PaineWebber, while a client of PaineWebber, in transactions in the secondary market during the period January 1, 1986 through December 31, 1992:

PaineWebber/Geodyne Energy Income Program I-A
PaineWebber/Geodyne Energy Income Program I-B
PaineWebber/Geodyne Energy Income Program I-C
PaineWebber/CMJ Properties
PaineWebber Income Properties 1-6
PaineWebber Growth Properties 1-2
PaineWebber Qualified Plan Fund 1-4
IRB Fund
Realty Southwest 2-3