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UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-15617

In the Matter of

LARRY C. GROSSMAN
and GREGORY J. ADAMS,

Respondents.

DIVISION OF ENFORCEMENT'S MOTION FOR SUMMARY DISPOSITION AGAINST RESPONDENT GREGORY J. ADAMS

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Pursuant to Rule 250 of the Commission's Rules of Practice, 17 C.F.R. § 201.250, and further pursuant to the Law Judge's Order for Partial Stay as to Gregory J. Adams dated March 7, 2014, the Division of Enforcement moves for summary disposition of the allegations of the November 20, 2013 Order Instituting Proceedings ("OIP") against Respondent Gregory J. Adams.

The only issues remaining for decision by the Law Judge against Adams in this matter are the *amounts* of disgorgement, prejudgment interest, and third-tier civil penalty that he shall pay. There are no genuine issues of material fact with respect to those issues, and the Division therefore is entitled to summary disposition against Adams as a matter of law. As set forth in more detail below, the Division seeks disgorgement in the principal amount of $1,070,828, plus prejudgment interest in the amount of $149,031, and a third-tier civil penalty in the amount of $1,070,828, representing Adams' pecuniary gain as a result of the fraud at issue in this matter.

The support for this motion is set forth below and in the accompanying Declaration of Kathleen E. Strandell (attached as Exhibit A).

I. INTRODUCTION

This matter involves investment adviser fraud, breaches of fiduciary duty and other violations of the securities laws by Adams, a principal of Sovereign International Asset Management, Inc. ("Sovereign"), an investment adviser registered with the Commission until February 6, 2013.

Adams solicited and directed Sovereign's advisory clients to invest and remain invested almost exclusively in hedge funds and a managed account controlled by Nikolai Battoo, who is currently a fraud defendant in another Commission case. Adams misrepresented his compensation and failed to disclose to Sovereign clients that in exchange for recommending they invest in Battoo's hedge funds and managed accounts, Battoo paid Adams more than $1 million.

In addition, at investment conferences and in written materials, Adams represented to clients that he chose Battoo's funds based on an extensive selection and due diligence process. He further

promoted Battoo's funds as safe, diversified, independently administered, audited, and suitable for the investment objectives and risk profiles of Sovereign clients, most of whom were retirees. In fact, investments in Battoo's funds were risky, lacked diversification, and lacked independent administrators and auditors. Adams also failed to investigate, and in some cases wholly disregarded, numerous red flags concerning Battoo and his funds.

On April 7, 2014, the Commission entered an Order Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b) and 21C of the Securities Exchange Act of 1934, Sections 203(f) and 203(k) of the Investment Advisers Act of 1940, and Section 9(b) of the Investment Company Act of 1940, and Ordering Continuation of Proceedings against Gregory J. Adams (the "April 7 Order") (a true and correct copy of which is attached as Exhibit B). In the April 7 Order, the Commission accepted Adams' Offer of Settlement, made findings of fact and conclusions of law, and entered a cease-and-desist order and collateral associational bars against him. In addition, Section IV of the April 7 Order provided:

> Pursuant to this Order, Adams agrees that disgorgement and third tier civil penalties are appropriate, and further agrees to additional proceedings in this proceeding to determine the amount of such disgorgement and civil penalties, plus prejudgment interest if ordered, pursuant to Section 8A of the Securities Act, Sections 21B and 21C of the Exchange Act, Sections 203(i) and 203(j) of the Advisers Act, and Sections 9(d) and 9(e) of the Company Act. In connection with such additional proceedings, Adams agrees: (a) he will be precluded from arguing that he did not violate the federal securities laws described in this Order; (b) he may not challenge the validity of this Order; (c) solely for the purposes of such additional proceedings, the allegations of this Order shall be accepted as and deemed true by the hearing officer; and (d) the hearing officer may determine the issues raised in the additional proceedings on the basis of affidavits, declarations, excerpts of sworn deposition or investigative testimony, and documentary evidence.

The Commission therefore ordered the continuation of these proceedings to determine the amount of disgorgement, prejudgment interest, and third-tier civil penalty that Adams shall pay. As noted above, these are the only issues remaining for decision in this matter against Adams.[1]

II. STATEMENT OF UNDISPUTED FACTS

The Division refers the Law Judge to Section III of the April 7 Order, which contains the findings of fact and conclusions of law the Commission made against Adams. (*See* Ex. B at 2-13.) As noted above in Section I, Adams is precluded from challenging the April 7 Order, and the findings of fact and conclusions of law the Commission made in the Order "shall be accepted as and deemed true by the hearing officer." (*Id.* at 13.) As a result, the findings and conclusions are undisputed for purposes of summary disposition.[2] The Division summarizes the relevant facts as follows:

Sovereign was an investment adviser registered with the Commission since June 2002. At its peak in 2008, Sovereign reported $85 million in assets under management. Sovereign was a small organization run by Grossman until he sold the company to Adams in October 2008.

In promotional materials and communications, Sovereign, through Adams, represented to clients that it utilized an extensive investment selection process and performed due diligence on all funds it recommended. Despite giving the impression that it offered an array of investment opportunities, Sovereign, through Adams, recommended clients invest and remain invested almost exclusively in several of Battoo's offshore hedge funds, including various asset classes of a fund-of-funds called Anchor Hedge Fund, and a managed account referred to as Private International Wealth Management ("PIWM").

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1 This motion does not concern the Co-Respondent, Larry C. Grossman. As the Law Judge is aware, a final hearing was held against Grossman on March 24-26 and April 8, 2014, and the parties have completed their post-hearing briefing.

2 References the Division makes in this motion to particular findings in the April 7 Order will be to the relevant numbered paragraphs in Section III of the Order.

To effectuate investments in Battoo's funds, Grossman created an entity called Anchor Hedge Fund Florida ("AH Florida") into which he pooled Sovereign clients' assets. After the sale of Sovereign, Adams continued the practice. At no time, however, did Adams disclose to clients that he was pooling their assets, and clients thought they held individual positions in the Anchor Hedge Fund. Indeed, clients were confused by the name "Anchor Hedge Fund Florida" and the similarity it had to the "Anchor Hedge Fund."

In addition, Adams failed to disclose to clients the existence of certain Referral and Consulting Agreements between Sovereign and Battoo's entities under which Battoo paid Adams fees after a Sovereign client invested in the Anchor Hedge Fund and PIWM. Moreover, Sovereign's investment advisory agreement and Forms ADV Part 1 and II that were in effect after Adams purchased the company also omitted any reference to the Referral and Consulting Agreements or the fees Battoo paid Adams. In fact, both the investment advisory agreement and Form ADV Part II specifically represented Sovereign would advise its clients of the nature of any and all fees it received from the various funds it recommended to clients. Despite that representation, Adams failed to disclose the fees Battoo paid him.

Adams also failed to perform proper due diligence on Battoo's funds and ignored numerous red flags about the nature of the funds. For example, despite the representations in the private placement memoranda for the various asset classes of the Anchor Hedge Fund that the investments were moderately risky, the investments were subject to high risk and the assets of each class were available to meet the liabilities of the remaining classes. In addition, contrary to the representations in the private placement memoranda, the Anchor Hedge Fund was not invested in an underlying portfolio of diverse hedge funds – instead, it was invested in a series of feeder funds that were connected to Bernard Madoff. Adams failed to conduct due diligence into the identity and placement

of the underlying funds. He also ignored the fact that the Anchor Hedge Fund's asset verification reports came from parties related to Battoo, not from independent third parties.

Moreover, Adams failed to question the circumstances surrounding the suspension of redemptions in Anchor Hedge Fund Class C. Instead, he accepted Battoo's explanation at face value and passed along to Sovereign clients Battoo's offer to swap clients' shares in Class C for shares in PIWM, without adequately investigating PIWM and its underlying portfolio of funds that were invested almost exclusively in funds managed or controlled by Battoo. Eventually, Battoo also suspended redemptions of PIWM.

III. MEMORANDUM OF LAW

A. Summary Disposition Standards

Commission Rule of Practice 250(b) provides the Law Judge may grant a motion for summary disposition if there is no genuine issue with regard to any material fact and the party is entitled to summary disposition as a matter of law. 17 C.F.R. §§ 201.250(b); *In the Matter of Michael Puorro, et al.,* AP File No. 3-11419 2004 WL 1462250 at *2 (Init. Dec. June 28, 2004). The standard has been analogized to the criteria for granting summary judgment under Federal Rule of Civil Procedure 56, including the standard that an opposing party must set forth specific facts showing there is a material fact in genuine dispute. *In the Matter of Edward Becker,* AP File No. 3-11367, 2004 WL 1238256 at *2 (Init. Dec. June 3, 2004).

The facts of the pleadings of the party against whom the motion is made shall be taken as true and viewed in the light most favorable to the non-moving party, except as modified by the non-moving party's stipulations or admissions, uncontested affidavits, or by facts officially noticed pursuant to 17 C.F.R. § 201.233. *In the Matter of American Resource Technologies, Inc., et al.,* AP File No. 3-14378, 2011 WL 4001029 at *2 (Sept. 9, 2011). Here, pursuant to the April 7 Order, Adams is precluded from challenging the findings made by the Commission in the April 7 Order and

which the Division summarized above in Section II. The findings the Commission made in the Order "shall be accepted as and deemed true by the hearing officer." (Ex. B at 13.) As a result, the findings made in the April 7 Order are undisputed, and there is no genuine issue with respect to any of those facts. The Division therefore is entitled to summary disposition against Adams as a matter of law.

Pursuant to Section IV of the April 7 Order, Adams already has consented to the sanctions of disgorgement and a third-tier civil penalty, plus prejudgment interest if ordered. Accordingly, the only issue remaining for resolution on this motion is the *amount* of disgorgement, prejudgment interest, and third-tier civil penalty that Adams shall pay.[3]

B. Disgorgement and Prejudgment Interest

(1) Amount of Disgorgement

The undisputed facts in this case show Adams violated the federal securities laws. As set forth in the April 7 Order, the Division has demonstrated Adams profited from his illegal conduct in undisclosed fees and compensation he received under the Referral and Consulting Agreements. (*See* April 7 Order, § III, at ¶¶ 21-25.) Under the circumstances, it would be inequitable to allow Adams to keep any of those proceeds.

The total principal amount of disgorgement the Division seeks against Adams is $1,070,828. (Strandell Dec. at ¶ 5.) To arrive at that amount, the Division reviewed books and records maintained by Sovereign and by Jyske Bank in Denmark ("Jyske Bank") that were produced to the Commission during its investigation. (*Id.* ¶ 4.)

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[3] As noted in the April 7 Order, on May 15, 2013 Adams filed a Chapter 7 bankruptcy petition. (April 7 Order, § III, at ¶ 2.) The Commission has filed a proof of claim in the bankruptcy case. To the extent the automatic bankruptcy stay remains in effect by the time the Law Judge enters an order against Adams, any enforcement of monetary relief the Division obtains in these administrative proceedings against Adams or property of Adam's bankruptcy estate will be sought in accordance with the Bankruptcy Code and Federal Rules of Bankruptcy Procedure. Any order for disgorgement, plus prejudgment interest, and civil penalties for violations of the federal securities laws is a nondischargeable debt pursuant to Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. 523(a)(19).

These documents consist of (i) statements pertaining to accounts Sovereign maintained at Jyske Bank during the time Adams served as president and chief investment officer of the company; and (ii) two facsimile transmissions from PIWM to Adams on June 3, 2010 and August 31, 2010, confirming amounts PIWM paid to Adams. (*Id.*) Based on our review of these materials, the Division determined the total amount Battoo's entities transferred into the Jyske Bank account was $894,118, and the total amount PIWM paid to Adams on June 3, 2010 and August 31, 2010 was at least $176,710. (*Id.* ¶ 5.) Therefore, the total principal amount of disgorgement in this case against Adams is $1,070,828.

The Division's analysis satisfies the standards applicable to disgorgement in Commission enforcement proceedings. Indeed, the law does not require precision in determining the proper amount of disgorgement. Instead, the amount "need only be a reasonable approximation of profits causally connected to the violation." *SEC v. W. Anthony Huff, et al.*, 758 F. Supp. 2d 1288, 1359 (S.D. Fla. 2010), *aff'd*, 2012 WL 10862 (11th Cir. 2012); *SEC v. First Jersey Securities,* 101 F.3d 1450, 1474-75 (2d Cir. 1996), *cert. denied*, 522 U.S. 812 (1997)). The wrongdoer, who has created the uncertainty through violations of the federal securities laws, bears the risk of uncertainty and is "obliged clearly to demonstrate that the disgorgement figure [is] not a reasonable approximation." *See SEC v. First City Fin. Corp.*, 890 F.2d 1215, 1232 (D.C. Cir. 1989). Here, the Division has reasonably approximated the amount of profits Adams obtained from the fraud. The undisputed facts show he received $1,070,828 in fees and compensation under the Referral and Consulting Agreements, all of which he kept hidden from Sovereign clients.

(2) Prejudgment Interest

In addition to disgorgement, prejudgment interest is equitable in these circumstances. Adams has enjoyed access to his ill-gotten gains over a period of time. To require payment of prejudgment interest is consistent with the equitable purpose of the remedy of disgorgement. *SEC v. Hughes*

Capital Corp., 917 F. Supp. 1080, 1090 (D.N.J. 1996), *aff'd* 124 F.3d 449 (3rd Cir. 1997). Prejudgment interest should be calculated in accordance with the delinquent tax rate established by the Internal Revenue Service, 26 U.S.C. § 6621(a)(2), and assessed on a quarterly basis, from August 31, 2010 (the date Adams received the last payment from PIWM) (*see* Strandell Dec. at ¶ 4 and Ex. 1) until September 30, 2014 (the date of filing of this motion). The rate of interest "reflects what it would have cost to borrow the money from the government and therefore reasonably approximates one of the benefits the defendant derived from [the] fraud." *First Jersey*, 101 F.3d at 1476.

Based on that formula, the total prejudgment interest to be assessed against Adams is $149,031. (Strandell Dec. at ¶ 6.)

C. Civil Penalty

As noted above in Section I, Adams has agreed to, and the April 7 Order imposes, a third-tier civil penalty against him. Pursuant to Section 8A of the Securities Act, Section 21B of the Exchange Act, Section 203 of the Advisers Act, and Section 9 of the Investment Company Act, under the third tier, the Law Judge may impose a penalty against Adams of up to the greater of (i) $150,000 for each violation of the securities laws he committed, or (ii) the gross amount of his pecuniary gain as a result of the fraud. *SEC v. KS Advisors, Inc.*, No. 2:04-CV-105-FTM-29, 2006 WL 288227 at *3 (M.D. Fla. Feb. 6, 2006).[4]

Factors to consider when assessing a civil penalty include the egregiousness of the violation, the isolated or repeated nature of the violations, the degree of scienter involved and the deterrent effect given the defendant's financial worth. *SEC v. K.W. Brown & Co., et al.*, 555 F. Supp. 2d 1275, 1315 (S.D. Fla. 2007); *SEC v. Yun,* 148 F. Supp. 2d 1287 (M.D. Fla. 2001). Applying these factors to

[4] Under the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Debt Collection Improvement Act of 1996, these amounts were adjusted to account for inflation, based on violation dates. 17 C.F.R. §§ 201.1003-1004, Tbl. III-IV to Subpt. E. Any misconduct in which Adams engaged prior to the adjustment date of March 3, 2009, would subject him to a penalty in the greater of $130,000 for each violation or the gross amount of pecuniary gain. For misconduct occurring after the adjustment date, Adams would be subject to a penalty in the greater of $150,000 for each violation or the gross amount of pecuniary gain.

Adams merits a high penalty. As discussed above, his conduct was egregious and recurrent, and he demonstrated a high degree of scienter. From the time he purchased Sovereign in October 2008 until at least August 2010, Adams, among other things: (i) failed to inform Sovereign clients their investment funds would be pooled in the name of AH Florida; (ii) recommended the Battoo Funds almost exclusively to clients; (iii) failed to disclose to clients the fees and compensation he received from Battoo under the Referral and Consulting Agreements; (iv) as the president and chief investment officer, disseminated Sovereign's investment advisory agreements and prepared Sovereign's Forms ADV Part 1 and II knowing they failed to properly disclose the fees he had received from Battoo; (iv) failed to investigate numerous red flags concerning Battoo and the various investments the Battoo Funds made; (v) failed to apprise Sovereign clients of the various conflicts of interest that existed among the independent administrator and directors of the Battoo Funds; and (vi) recommended the PIWM swap to clients without fully investigating the terms of the arrangement. (April 7 Order, § III, at ¶¶ 12, 13; 21-25; 27-31; 35-39; 42-50; 52-54.)

Moreover, based on the public policy objective of deterrence, the Division submits a substantial penalty is necessary and appropriate to punish Adams for his unlawful activities and deter others from engaging in violations of the federal securities laws. Indeed, a monetary penalty also would deter Adams and others from similar conduct in defiance of the basic principles of full and fair disclosure and avoidance of conflicts of interest that are at the heart of the securities laws. *See In The Matter Of Piper Capital Management, Inc., et al.*, AP File No. 3-9657, 2003 WL 22016298 at *22 (August 26, 2003) ("[a]s the law judge properly noted, a monetary penalty serves to deter other persons and entities in the securities industry from committing in the future the violations [respondent] committed in this case.").

In setting the amount of the third-tier penalty, the Division notes that courts have determined a violation occurs *each* time a respondent has acted to violate the securities laws. *See SEC v. Lazare*

Indus., Inc., 294 Fed. App'x 711, 715 (3rd Cir. 2008) (for the purposes of assessing reasonableness of district court's assessment of $500,000 penalty, court considered each sale of unregistered stock as a separate violation); *SEC v. Coates*, 137 F. Supp. 2d 413, 430 (S.D.N.Y. 2001) (court calculated penalty by multiplying number of misrepresentations by penalty amount). Therefore, the Law Judge could impose a penalty of $130,000-$150,000 on Adams for *each* violation that occurred in this case. The Law Judge could find, for example, a violation each time Adams received a payment from Battoo under the Referral and Consulting Agreements. There were 15 payments in total that Battoo made (*see* Strandell Dec. at Exs. 1, 2); accordingly, Adams could be liable for a penalty of between $1,950,000 and $2,250,000, just taking into account the payments received from Battoo. The penalty could be exponentially higher if the Law Judge included, for example, each time Adams recommended an investment in the Battoo Funds to Sovereign clients; each time he pooled client assets in AH Florida's account; each time he signed and disseminated Sovereign's Forms ADV Parts 1 and II; and each time he encouraged Sovereign clients to swap their investments in Anchor Hedge Fund Class C for investments in PIWM.

Given Adams' efforts to conceal his compensation from Sovereign clients, and his disregard of obvious warning signs that should never have led him to recommend the Battoo Funds and PIWM in the first place, the Division submits a third-tier penalty in the amount of Adams' pecuniary gain ($1,070,828) is an appropriate penalty to impose in this proceeding. As noted above, that amount consists of the undisclosed fees and compensation Battoo paid Adams under the Referral and Consulting Agreements. (Strandell Dec. at ¶ 5.)

Law Judges and District Courts have routinely imposed pecuniary gain penalties on investment advisers where, as here, the adviser has engaged in significant misconduct. *See, e.g., In the Matter of Richard P. Sandru*, AP File No. 3-15268, 2013 SEC LEXIS 2346, at *26 (Aug. 12, 2013) (adviser misappropriated hundreds of thousands of dollars in client fees, and concealed from

clients that he had used their funds to trade in his own accounts); *SEC v. Souza*, No. 09-cv-2421, 2011 U.S. Dist. LEXIS 59626, at *7-8 (E.D. Cal. June 3, 2011) (adviser solicited investments in a Ponzi scheme and used the proceeds to fund his personal expenses); *SEC v. Locke Capital Mgmt.*, 794 F. Supp. 2d 355, 371 (D.R.I. 2011) (adviser invented a fictitious foreign client and lied to investors about the billions of dollars in assets under management the adviser received from this client); *SEC v. Alvieri*, No. 02-cv-7893, slip op., at 5 (S.D.N.Y. Mar. 28, 2008) (adviser misappropriated client assets, claimed to invest the assets in nonexistent hedge funds and concealed the misappropriation by disseminating false account statements to clients); *SEC v. Haligiannis*, 470 F. Supp. 2d 373, 386 (S.D.N.Y. 2007) (adviser orchestrated an elaborate Ponzi scheme); *KS Advisors, Inc.*, 2006 WL 288227 at * 3 (adviser lied to investors about net asset value of hedge fund and misappropriated millions of dollars of client assets).

The Division submits a pecuniary gain penalty would properly punish Adams for the misconduct in which he engaged, and also would serve as a deterrent against future would-be fraudsters from perpetrating similar investment schemes. Accordingly, the Division respectfully requests the Law Judge enter a penalty against Adams in the amount of $1,070,828.

IV. CONCLUSION

For the foregoing reasons, the Division asks the Law Judge to grant its motion for summary disposition and find Adams liable for disgorgement in the amount of $1,070,828, prejudgment interest in the amount of $149,031, and a third-tier civil penalty in the amount of $1,070,828.

Dated: September 30, 2014

Respectfully submitted,

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UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9572 / April 7, 2014

SECURITIES EXCHANGE ACT OF 1934
Release No. 71885 / April 7, 2014

INVESTMENT ADVISERS ACT OF 1940
Release No. 3811 / April 7, 2014

INVESTMENT COMPANY ACT OF 1940
Release No. 31008 / April 7, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-15617

In the Matter of **LARRY C. GROSSMAN and GREGORY J. ADAMS,** **Respondents.**	**ORDER MAKING FINDINGS AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, SECTIONS 15(b) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, SECTIONS 203(f) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, AND SECTION 9(b) OF THE INVESTMENT COMPANY ACT OF 1940, AND ORDERING CONTINUATION OF PROCEEDINGS AGAINST GREGORY J. ADAMS**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest to enter this Order Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), Sections 15(b) and 21C of the Securities Exchange Act of 1934 ("Exchange Act"), Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), and Section 9(b) of the Investment Company Act of 1940 ("Company Act") and Ordering Continuation of Proceedings against Gregory J. Adams ("Adams").[1]

[1] On November 20, 2013, the Commission instituted public administrative and cease-and-desist proceedings pursuant to Section 8A of the Securities Act, Sections 15(b) and 21C of the Exchange Act, Sections 203(f) and 203(k) of the Advisers Act, and Section 9(b) of the Company Act, against Adams and co-respondent, Larry C. Grossman ("Grossman").

II.

Adams has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over him and the subject matter of these proceedings, which are admitted, Adams consents to the entry of this Order Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b) and 21C of the Securities Exchange Act of 1934, Sections 203(f) and 203(k) of the Investment Advisers Act of 1940, and Section 9(b) of the Investment Company Act of 1940 and Ordering Continuation of Proceedings Against Gregory J. Adams ("Order"), as set forth below.

III.

On the basis of this Order and Adams' Offer, the Commission finds that:[2]

A. RESPONDENTS

1. Grossman, age 58, resides in Tarpon Springs, Florida, and was the founder, managing partner, and sole owner of Sovereign International Asset Management, Inc. ("Sovereign") until October 2008, when he sold Sovereign, along with related entities, to Adams. Grossman is currently the principal manager of Sovereign International Pension Services, Inc., an IRA administrator ("SIPS").

2. Adams, age 58, resides in Palm Harbor, Florida and was Sovereign's managing partner and owner from October 2008 to its dissolution. Adams bought Sovereign, along with other related entities, from Grossman in October 2008. He currently owns and manages Sovereign Private Wealth, Inc., an investment adviser that was registered with the Commission until December 17, 2012 (at which point it had approximately $15 million in assets under management). Adams is the managing director of Weybridge Capital, which manages the Sheffield family of funds registered and licensed in the British Virgin Islands. On May 15, 2013, Adams filed a Chapter 7 bankruptcy petition.

B. OTHER RELEVANT ENTITIES AND INDIVIDUALS

3. Sovereign International Asset Management, Inc. ("Sovereign"), a Florida corporation with its principal place of business in Clearwater, Florida, was incorporated by Grossman in 2001. Sovereign registered with the Commission as an investment adviser on June 21, 2002. In October 2008, Grossman sold Sovereign to Adams. At all relevant times, Sovereign was owned, managed, and controlled solely by either Grossman or Adams. On June 28, 2012, Sovereign filed for Chapter 7 bankruptcy

[2] The findings herein are made pursuant to Adams' Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

in the United States Bankruptcy Court for the Middle District of Florida. Sovereign was administratively dissolved by the State of Florida at the end of September of 2012. Pursuant to Section 203(h) of the Advisers Act, the Commission canceled Sovereign's registration on February 6, 2013.

4. Sovereign International Asset Management, LLC ("SIAM, LLC") is a limited liability company Grossman formed in April 1999 and registered in Anguilla. Grossman sold SIAM, LLC to Adams in conjunction with the sale of Sovereign in October 2008.

5. Anchor Holdings, LLC (Florida) ("AH Florida") is a limited liability company registered in Florida in 2005. Grossman sold AH Florida to Adams in October 2008. It was dissolved in September 2012.

6. Anchor Holdings, LLC (Nevis) ("AH Nevis") is a company Grossman formed and registered in Nevis in September 2004. Grossman sold AH Nevis to Adams in conjunction with the sale of Sovereign in October 2008.

7. Nikolai Simon Battoo ("Battoo"), age 41, is the principal of BC Capital Group, S.A. (Panama) and BC Capital Group Limited (Hong Kong), collectively referred to herein as "BC Capital." Through BC Capital, Battoo operates offshore hedge funds. He also offers managed account services through Private International Wealth Management ("PIWM"). Battoo is not registered with the Commission in any capacity. Battoo was named as a defendant in a fraud action the Commission filed on September 6, 2012, SEC v. Nikolai S. Battoo, et al., 12CV7125, N.D. Ill.

8. Anchor Hedge Fund Limited ("Anchor Hedge Fund") was incorporated in the British Virgin Islands in September 2002. Grossman was a consultant to Anchor Hedge Fund and, along with Battoo, a member of its investment advisory board until at least July 2008.

9. Anchor Hedge Fund Management Limited ("AHF Management"), formed in Hong Kong in 2004, was the investment manager of Anchor Hedge Fund.

C. BACKGROUND

1. Sovereign's Operations

10. Sovereign was an investment adviser registered with the Commission since June 2002. At its peak in 2008, Sovereign reported it had $85 million in assets under management. Sovereign was a small organization run by Grossman, Sovereign's sole control person, until Grossman sold it to Adams in October 2008. Sovereign employed a small staff of less than ten people. No one at Sovereign was a registered representative associated with a broker-dealer during the relevant period.

11. Sovereign targeted retirees seeking to invest their money offshore, and most of Sovereign's clients were retired individuals with self-directed IRAs. In its

promotional materials, Sovereign represented to clients that it "use[d] an extensive investment selection process that [was] not only qualitative but incorporate[d] a significant due diligence process as well." In fact, Sovereign and Adams advised their clients to invest almost exclusively in funds and accounts managed or controlled by Battoo, regardless of their clients' investment objectives.

12. Specifically, Sovereign and Adams recommended that their clients invest and remain invested almost exclusively in several of Battoo's offshore funds: Anchor Hedge Fund Classes A, B, C and E (the "Anchor Funds"); FuturesOne Diversified Fund Ltd., ("FuturesOne") a mutual fund formed in the British Virgin Islands (Battoo was the sole member and Chairman of its investment advisory board) (collectively, the "Battoo Funds"); and in PIWM, a managed account.

2. Grossman Forms AH Florida

13. Grossman formed AH Florida in 2005, using the identical name of another entity he had formed in Nevis a year before. Sovereign, through Adams (after he acquired AH Florida), instructed clients seeking to invest in the Battoo Funds and PIWM to transfer their money to AH Florida's account at a bank in Florida. Sovereign gave clients a document called "Anchor Hedge Fund Application for Shares," in which AH Florida was identified as an intermediary, and also included a wire transfer form authorizing a transfer to AH Florida's account. But Adams never told clients, either in writing or orally, that Sovereign would pool client funds into a bank account in the name of AH Florida, an entity owned by Adams. Clients completed an application for the individual shares they wanted to purchase.

14. After pooling client funds in AH Florida's bank account, Adams transferred the funds offshore to the Battoo Funds and PIWM in the name of AH Nevis. Because of the similarity in names, clients believed that the AH Florida account was an account belonging to Anchor Hedge Fund. Although Adams gave Battoo the names of the clients investing in his funds, the investments were nevertheless made in the name of AH Nevis, which was owned by Adams.

15. Sovereign's clients never received statements from a qualified custodian or from Sovereign regarding the investment funds deposited in AH Florida's bank account. Although Sovereign sent statements to clients regarding their purported investments in the Battoo Funds, there were no surprise annual exams of Sovereign during the relevant period.

3. Grossman Sells Sovereign to Adams

16. On October 1, 2008, Grossman sold Sovereign to Adams. On October 14, 2008, Adams emailed a letter signed by Grossman to Sovereign clients—most of whom had invested exclusively in the Battoo Funds and PIWM —in which Grossman wrote that he "want[ed] to reiterate that our hedge fund investments are 'Fund of Funds' that are highly diversified with different managers, styles and strategies."

17. The letter introduced Adams and informed clients that Adams had been named Sovereign's President and Chief Investment Officer. The letter stated Grossman would remain Managing Director of SIPS, which was "only a few doors from [Adams'] office." He would also remain on Sovereign's Board of Advisers and was "actively involved in the day-to-day strategy development as needed."

D. ADAMS'S MISSTATEMENTS AND OMISSIONS TO INVESTORS

1. Misstatements and Omissions about Compensation

18. On January 17, 2003, Sovereign sent an email to its clients stating that Sovereign had taken on an active role as an investment adviser to Battoo's Anchor Hedge Fund. Sovereign represented to its clients that it received no additional compensation but was "privy to and part of many investment decisions that are made."

19. More so than an investment adviser to Anchor Hedge Fund, Sovereign was a referral source for Battoo and his offshore funds. Adams, from October 2008 until August 2010, advised Sovereign's clients to invest or remain invested almost exclusively in the Battoo Funds and PIWM.

20. Sovereign's clients invested primarily in Anchor Funds, which was a fund of funds, and PIWM. Thus, Sovereign's clients paid multiple layers of fees when they invested in Anchor Funds. Sovereign's clients, however, received little or no additional benefits in exchange for these extra fees. For example, they did not receive any meaningful diversification across different fund manager styles as is typically offered by a fund of funds because many of Anchor Funds' sub-funds were managed, controlled, or advised by Battoo. Like those clients who invested in Anchor Funds, clients who invested in PIWM also paid fees on fees because PIWM invested in sub-funds that were managed, controlled, or advised by Battoo.

a. The Referral and Consulting Agreements

21. From August to December 2003, Grossman signed three referral and one consulting agreements, on behalf of SIAM, LLC, with funds and entities Battoo owned or controlled: (1) a referral agreement between SIAM, LLC and Anchor Hedge Fund (the "Anchor Referral Agreement"); (2) a referral agreement between SIAM, LLC and FuturesOne (the "FuturesOne Referral Agreement"); (3) a referral agreement between SIAM, LLC and BC Capital Group S.A. (Panama), which managed the PIWM account (the "PIWM Referral Agreement"); and (4) a consulting agreement between Grossman and Anchor Hedge Fund's investment manager (the "Consulting Agreement").

22. The first three of these agreements triggered referral fees to Sovereign, paid to SIAM LLC. Adams did not disclose this compensation to the Sovereign investors.

23. The four written agreements included: (a) the Anchor Referral Agreement, effective August 1, 2003, pursuant to which Anchor Hedge Fund paid SIAM,

LLC a 1% sales load for Anchor Hedge Fund Classes A and B and a 2% sales load for Anchor Hedge Fund Classes E and I; (b) the FuturesOne Referral Agreement, effective September 1, 2003, pursuant to which FuturesOne paid SIAM, LLC for each referred investor a 2% sales load and 50% of fees earned by Innovative Financial Holdings Limited ("Innovative"), the investment manager of FuturesOne; (c) the PIWM Referral Agreement, effective November 1, 2003, pursuant to which BC Capital Group, S.A. (Panama) agreed to pay SIAM, LLC 50% of the 1%-2% annual fee the advisor earned in PIWM; and (d) the Consulting Agreement, effective December 1, 2003, pursuant to which AHF Management paid Grossman a percentage of the management fee charged by Anchor Hedge Fund and a performance fee related to new net profits.

24. A fourth referral agreement, not in writing, between Anchor Hedge Fund and SIAM LLC, provided that SIAM LLC would receive the initial sales load of 4.5% charged to Sovereign's clients upon their investments in Anchor Hedge Fund and in PIWM. Anchor Hedge Fund made these payments in lump sums.

25. Pursuant to these agreements, beginning at least in 2004, Battoo paid Sovereign through SIAM, LLC's account in Denmark for referrals of clients to the Battoo Funds and PIWM. After the sale of Sovereign to Adams, and continuing through 2010, Battoo continued to pay Sovereign through SIAM, LLC, now owned by Adams.

b. Adam's Misrepresentations and Omissions Concerning the Referral and Consulting Agreements

26. While he was a control person of Sovereign, Adams misrepresented compensation he received from Battoo related entities and thus failed to adequately disclose his conflicts of interest to Sovereign's clients.

27. For example, Sovereign did not timely provide the Form ADV Part II to all its clients as required under Advisers Act Rule 204-3 and its clients did not otherwise consent to delivery through a website. Further, the Form ADV Part II either omitted, or contained misleading statements regarding additional compensation. Sovereign also represented that it would notify clients of any and all fees paid to Sovereign. Yet, Sovereign failed to provide any notice to its clients of the fees paid to Grossman and SIAM, LLC.

28. Sovereign's Form ADV Part 1 was also misleading, even after Adams purchased Sovereign in October 2008. Although Sovereign for the first time disclosed in its 2009 Form ADV Part 1, under "Compensation Arrangements," its referral fees, that disclosure was misleading. For example, the disclosure was made in response to questions on the form about Sovereign's advisory business as opposed to more specific questions intended to elicit information about Sovereign's involvement in other business activities which could create potential conflicts of interest.

29. For many years, Sovereign's investment advisory agreements ("IAA") were also misleading and failed to contain any disclosures regarding the receipt of transaction-based compensation. Like the Form ADV Part II, the IAA explicitly stated that

Sovereign "will notify clients in advance of any investments the nature of any and all fees charged to the client and/or paid to Advisor." Sovereign gave this IAA to clients at the same time that it received compensation for referring its clients to Battoo. Yet, Sovereign did not disclose these fees to clients.

30. In August 2006, Sovereign revised its IAA and disclosed that Sovereign "may receive performance-based compensation from certain investment companies." However, this language did not provide adequate notice because it does not cover transaction-based compensation, such as referral fees to Sovereign or SIAM, LLC for recommending that clients invest in certain funds.

Misrepresentations and Omissions about Compensation
During Adams's Ownership

31. During Adams's ownership of Sovereign, the company made the following misleading disclosures about compensation:

(a) Sovereign's 2009 IAA stated that "[t]he Advisor [Sovereign] may receive performance-based compensation from certain investment companies." This disclosure was misleading because (i) it omitted the fact that SIAM, LLC (which was under common control with Sovereign) received referral fees (sales load and management fees) from Anchor Hedge Fund and FuturesOne, and referral fees (management fees) from BC Capital related to PIWM; and (ii) it did not disclose that SIAM, LLC received the initial 4.5% sales load Anchor Hedge Fund and PIWM charged to Sovereign's clients;

(b) Sovereign's 2009 IAA also stated that Advisor [Sovereign] will notify clients in advance of any investments the nature of any and all fees charged to the client and/or paid to Advisor." This disclosure was misleading because Sovereign never notified its clients that it was in fact receiving compensation, through SIAM, LLC, for referring them to Anchor Hedge Fund, FuturesOne, and BC Capital;

(c) Sovereign's 2009 and 2010 Forms ADV Part II (and brochures) stated that "Sovereign may receive incentive or subscription fees from certain investment companies." This disclosure was misleading because it omitted the fact that SIAM, LLC was already receiving referral fees from Anchor Hedge Fund, FuturesOne, and BC Capital;

(d) Sovereign's 2009 and 2010 Forms ADV Part II (and brochures) further stated that "Sovereign will notify clients in advance of any investments the nature of any and all fees charged to the client and/or paid to Sovereign." The third disclosure was misleading because Sovereign never notified its clients that it was in fact receiving compensation, through SIAM, LLC, for referring them to Anchor Hedge Fund, FuturesOne, and BC Capital;

(e) Sovereign also stated the following in its brochure: (i) in Item 13, that Sovereign (or a related person) did not have an arrangement whereby it is paid cash

or received an economic benefit (including commissions, equipment, or non-research services) from a non-client in connection with giving advice to clients; (ii) in Item 8, that Sovereign did not have an arrangement with an investment company that was material to its advisory business or its clients; and (iii) in Item 9, that Sovereign (or a related person) did not recommend to clients that they buy or sell securities or investment products in which the applicant or a related person has some financial interest. These disclosures were misleading because (i) SIAM, LLC received referral fees from Anchor Hedge Fund, FuturesOne and BC Capital when Sovereign recommended investments in these funds and in a managed account to its clients; (ii) Sovereign did not disclose that SIAM, LLC received the initial 4.5% sales load Anchor Hedge Fund and PIWM charged to Sovereign's clients; and (iii) Grossman (a related person) was in fact receiving advisory fees (based upon a percentage of management and performance related fees) from AHF Management; and

(f) Sovereign's 2009 and 2010 Form ADV Part 1 stated in Item 5 (Information About Your Advisory Business-Compensation Arrangements) that "Sovereign receives referral fees for selection of other advisers." This disclosure was misleading because it did not disclose Sovereign's compensation arrangements with Anchor Hedge Fund, FuturesOne, and BC Capital Group, and because the statement was made in response to questions on the form about Sovereign's advisory business as opposed to more specific questions intended to elicit information about Sovereign's involvement in other business activities which could create potential conflicts of interest, such as Item 6.B.1. (Other Business Activities).

2. Adams Misled Clients to Invest In Anchor Hedge Funds

32. In or around October 2008, Adams advised clients to retain their investments in Anchor Hedge Fund. However, Adams knowingly or recklessly misrepresented the risk and independence of the funds.

a. Cross Portfolio Liability

33. After purchasing Sovereign, Adams told clients to retain their investments in the Battoo Funds (and Anchor Hedge Fund in particular) and PIWM. Written materials, including PPMs, described Anchor Fund Classes A and B to clients as moderately risky investments with goals of long-term capital appreciation and preservation. These classes, however, were subject to high risk. In fact, the assets of each class were available to meet the liabilities of the other classes, something that was not disclosed in the PPM. As a result, the investments in market neutral Anchor Classes A and B could be used to cover liabilities, including claims by investors and third parties, incurred by the higher risk and more volatile Anchor Class C. Sovereign did not disclose the exposure between the classes to clients who sought only moderately risky investments.

b. Anchor Hedge Fund Class A Did Not Invest in Diversified, Independently-Administered, and Audited Funds

34. According to its 2005 PPM, Class A invested into "a portfolio of well-established independently administered and audited hedge funds to be used to access the [fund's] investment objectives."

35. The PPM also stated that Class A invested into a portfolio of market neutral equity hedge investing and other alternative investments funds, "including funds investing both long and short in public equity investments and indexes, both in the USA and globally; with underlying holdings generally including but not being limited to bank deposits, fixed income securities, spot and forward foreign exchange contracts, equities, exchange traded funds, options, derivatives, government and corporate debt and other financial instruments." The PPM also stated that Class A would be administered by Folio Administrators, Ltd., but omitted to disclose that this entity was closely affiliated with Battoo and thus was not independent. For instance, its director was also on BC Capital's board and on Anchor Hedge Fund's professional advisory board.

36. In addition to written misstatements, Adams orally told clients in November 2008 that Anchor A was extremely safe and a "good place" to be.

37. In fact, Anchor Fund Class A did not invest in independently administered and audited hedge funds. Indeed, the asset verification reports came from parties related to Battoo, not from independent third parties. Anchor Hedge Fund's administrator generated the asset verification reports based on information provided by the custodian for Battoo and BC Capital. The administrator and custodian were controlled and managed by the same individuals who managed and administered Battoo's funds. They also shared the same post office boxes as Anchor Hedge Fund and signed the referral and consulting agreements with SIAM, LLC and Grossman.

38. The investments in Anchor Fund Class A were also far from diversified. Class A did not invest in what its PPM represented, such as fixed income securities, exchange traded funds, or government and corporate debt. In fact, after Battoo suspended redemptions for investments in Anchor Fund Class A in December 2008, he claimed Anchor Fund Class A had invested substantially all of its assets with Bernard Madoff.

39. During the relevant period, Adams continued to advise clients to retain their investments in Anchor A, even after (1) the suspension called into question Battoo's previous representation to Adams that only 2% of the fund had exposure to the Madoff Ponzi scheme and (2) Battoo refused to file a proof of claim or provide Adams with supporting documentation of the fund's investments.

c. Liquidity Issues with and Suspension of Anchor Fund Class C

40. Shortly before the Madoff scandal erupted in the press, Anchor Hedge Fund suspended redemptions of Anchor Fund Class C. On October 13, 2008,

Anchor Hedge Fund sent a letter to its Class C shareholders, notifying them that it was suspending redemptions of Anchor Fund Class C because it was switching its portfolio from one bank to another. This supposed change began at the end of 2007 but was delayed because of "deteriorating financial market conditions." The letter also stated that Anchor Hedge Fund would "begin processing redemptions as soon as it is practical."

41. After Anchor Hedge Fund suspended redemptions of Anchor C shares, Adams did not question the reason for the suspension. Instead, Adams simply accepted Battoo's assurances and represented to Sovereign's clients in writing that the suspension was due to Société Générale's failure to timely process a transfer of the custodial relationship for Anchor Fund C. A few weeks after the suspension, Battoo met with Adams and proposed exchanging Class C shares for PIWM shares. Shortly thereafter, Adams recommended the swap to Sovereign's clients without conducting sufficient due diligence concerning PIWM.

3. Adams's Misstatements and Omissions Regarding the PIWM Swap

42. Battoo proposed the swap shortly after Anchor Hedge Fund suspended redemptions of Class C shares. On October 28, 2008, Battoo visited Sovereign's offices and met with Adams. At this meeting, Battoo offered to exchange interests in PIWM's "Market Neutral" managed account for Sovereign clients' investments in shares of Anchor Hedge Fund Classes B, C, and E and in FuturesOne. By October 2008, these funds in Anchor Hedge Fund and FuturesOne had become illiquid or had substantially decreased in value.

43. Under the terms of the swap, Sovereign investors were to receive an interest, or an equivalent value-in-kind participation, in PIWM valued at amounts equal to the pre-impairment values of their hedge fund shares. In exchange, Battoo demanded a lock up period of 18 months. Nevertheless, Adams said the swap was advisable because he believed PIWM "Market Neutral" was similar to Anchor Class A which was a market neutral fund that had supposedly performed well in the past.

44. Although Adams had served on PIWM's advisory board since October 2008 he failed to conduct any due diligence concerning PIWM's investments before recommending the swap to Sovereign's clients. Had he done so, he would have known that PIWM's investments were almost entirely in funds and accounts managed or controlled by Battoo, including the funds being exchanged in the swap.

45. Rather than conduct independent due diligence about PIWM's investments, Adams simply requested more information from Battoo, which Battoo refused to provide. Nevertheless, Adams, who received referral fees from PIWM, signed the swap agreement and recommended the swap to Sovereign's clients. More specifically, Adams recommended that Sovereign clients swap their Anchor Class C shares for PIWM managed account interests using an account value as of August 31, 2008. Furthermore, Adams assured clients who invested in Anchor C that the swap was "a generous offer in light of a situation [Battoo] did not create."

46. In November, 2008, Adams further represented to Sovereign clients that: (1) the suspension of Anchor C was due to Société Générale's failure to process the transfer of the custodial relationship for Anchor Class C; (2) PIWM had much better performance than Anchor Class C and, by exchanging the shares, clients would avoid the losses incurred in September and October 2008; and (3) The resulting interests in PIWM were subject to an 18 month lock-up.

47. Before Adams executed the swap agreement on January 30, 2009, Adams failed to disclose to clients that: (1) underlying investments for PIWM were in other funds almost all managed or controlled by Battoo, including Anchor and FuturesOne, and thus there was no diversification of management style and no reason to expect better investment performance; (2) PIWM's sub-funds were illiquid and suspended purportedly due to the Madoff Ponzi scheme (including Anchor Class A and Galaxy Fund Class C) or had incurred such significant losses that the sub-fund was also being exchanged for PIWM (Anchor Class E).

48. On January 30, 2009, three months after Battoo proposed the swap and almost two months after Battoo suspended redemptions of Anchor Class A purportedly due to the Madoff scandal, Adams executed an agreement in which AH Nevis transferred to PIWM its shares of Anchor Hedge Fund (all classes except for A) and of FuturesOne.

49. Later, in the fall of 2009, a year after the swap was proposed by Battoo, Adams was still receiving vague and conflicting responses from Battoo as to the start date of the lock up period and whether it was 18 months or 24 months. Despite this disagreement, Adams continued to advise clients to retain their investments in the Battoo Funds and PIWM.

50. Beginning in 2010, Battoo refused to permit withdrawals from PIWM, in part because of a dispute over the lock-up period. In November 2011, Battoo publicly claimed to investors that losses incurred in the MF Global bankruptcy triggered the refusal to permit withdrawals from PIWM.

E. ADAMS IGNORED RED FLAGS

51. Before the suspensions of the Battoo Funds and the PIWM swap agreement, Adams failed adequately to research or investigate a number of red flags about Battoo and his funds.

52. According to Anchor Hedge Fund PPMs, shareholders were entitled to receive annual audited financial reports upon request. However, in 2008 Adams knew Battoo ceased providing to investors independently-audited financial statements regarding the Battoo Funds. The last independent auditor report Sovereign received from Anchor Hedge Fund for Anchor Class C was for the year ended December 31, 2006 and for Anchor Classes A and B was for the year ended December 31, 2007. Battoo did not provide any other audited financial statements and told Adams he would not because the information was confidential and proprietary. Nevertheless, Sovereign, and Adams continued to recommend Battoo's funds to their clients.

53. Anchor Hedge Fund PPMs also entitled investors to receive asset verification reports from independent third parties upon request. However, Adams knew asset verification reports came from parties related to Battoo, not from independent third parties. The reports were generated by Anchor Hedge Fund's administrator and based on information provided by the custodian for Battoo and BC Capital. The administrator and custodian were controlled and managed by the same individuals who managed and administered Battoo's funds and shared the same post office boxes as Anchor Hedge Fund and PIWM. In addition, these individuals signed the referral and consulting agreements with SIAM, LLC. Despite this lack of independence, undisclosed to investors, Adams failed to investigate the figures Battoo provided to him. Instead, he touted the performance of the Battoo Funds to Sovereign clients.

54. Finally, Adams failed independently to investigate Anchor Hedge Fund even after Battoo suspended redemptions of Anchor Class A and subsequently refused to file a claim in the Madoff recovery proceedings or provide information regarding its losses.

F. VIOLATIONS

55. As a result of the conduct described above, Adams willfully violated Section 17(a) of the Securities Act which prohibits fraudulent conduct in the offer and sale of securities.

56. As a result of the conduct described above, Adams willfully violated Section 15(a) of the Exchange Act, which prohibits an unregistered broker-dealer from making use of the mails or any means or instrumentality of interstate commerce to effect any transactions in, or to induce or attempt to induce the purchase or sale of, any security, and willfully aided and abetted and caused violations of Section 15(a) of the Exchange Act.

57. As a result of the conduct described above, Adams willfully violated Sections 206(1) and 206(2) of the Advisers Act, which prohibit fraudulent conduct by investment advisers and impose on investment advisers a fiduciary duty to act in "utmost good faith," to fully and fairly disclose all material facts, and to use reasonable care to avoid misleading clients.

58. As a result of the conduct described above, Adams willfully violated Section 206(3) of the Advisers Act, which prohibits an investment adviser from "acting as a broker for a person other than such client, knowingly to effect any sale or purchase of any security for the account of such client . . . without disclosing to such client in writing before the completion of such transaction the capacity in which he is acting and obtaining the consent of the client to such transaction."

59. As a result of the conduct described above, Adams willfully aided and abetted and caused violations of Section 206(4) of the Advisers Act, which prohibits fraudulent, deceptive, or manipulative conduct by an investment adviser, and Rule 206(4)-2 promulgated thereunder, which requires that an investment adviser maintain each client's

funds in bank accounts containing only those client funds, notify its clients as to the name and address of the custodian of client funds and manner in which their funds are maintained, and have client funds and securities verified by an independent public accountant at least once a year without prior notice to the investment adviser.

60. As a result of the conduct described above, Adams willfully aided and abetted and caused violations of Rule 204-3 of the Advisers Act, which requires investment advisers to deliver a brochure and one or more brochure supplements to each client or prospective client that contains all information required by Part II of Form ADV.

61. As a result of the conduct described above, Adams willfully violated Section 207 of the Advisers Act which makes it unlawful "for any person willfully to make any untrue statements of material fact in any registration application or report filed with the Commission under Section 203 or 204.

IV.

Pursuant to this Order, Adams agrees that disgorgement and third tier civil penalties are appropriate, and further agrees to additional proceedings in this proceeding to determine the amount of such disgorgement and civil penalties, plus prejudgment interest if ordered, pursuant to Section 8A of the Securities Act, Sections 21B and 21C of the Exchange Act, Sections 203(i) and 203(j) of the Advisers Act, and Sections 9(d) and 9(e) of the Company Act. In connection with such additional proceedings, Adams agrees: (a) he will be precluded from arguing that he did not violate the federal securities laws described in this Order; (b) he may not challenge the validity of this Order; (c) solely for the purposes of such additional proceedings, the allegations of this Order shall be accepted as and deemed true by the hearing officer; and (d) the hearing officer may determine the issues raised in the additional proceedings on the basis of affidavits, declarations, excerpts of sworn deposition or investigative testimony, and documentary evidence.

V.

In view of the foregoing, the Commission deems it appropriate, in the public interest and for the protection of investors to impose the sanctions agreed to in Adams' Offer, and to continue proceedings to determine the amount of disgorgement and civil penalties.

Accordingly, pursuant to Section 8A of the Securities Act, Sections 15(b) and 21C of the Exchange Act, Sections 203(f) and 203(k) of the Advisers Act, and Section 9(b) of the Company Act, it is hereby ORDERED that:

A. Adams cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act; Section 15(a) of the Exchange Act; and Sections 206(1), 206(2), 206(3), 206(4) and 207 of the Advisers Act and Advisers Act Rules 204-3 and 206(4)-2.

B. Adams be, and hereby is:

barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal adviser, transfer agent, or nationally recognized statistical rating organization; and

prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter

C. Any reapplication for association by Adams will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against Adams, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Adams shall pay disgorgement and third tier civil penalties, in amounts to be determined by additional proceedings.

By the Commission.

Jill M. Peterson
Assistant Secretary