

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 51839 / June 14, 2005

INVESTMENT ADVISERS ACT OF 1940
Release No. 2395 / June 14, 2005

ADMINISTRATIVE PROCEEDING
File No. 3-11951

In the Matter of

HILARY L. SHANE,

Respondent.

**ORDER INSTITUTING
ADMINISTRATIVE PROCEEDINGS
PURSUANT TO SECTION 15(b)(6) OF
THE SECURITIES EXCHANGE ACT OF
1934 AND SECTION 203(f) OF THE
INVESTMENT ADVISERS ACT OF 1940,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b)(6) of the Securities Exchange Act of 1934 (“Exchange Act”) and Section 203(f) of the Investment Advisers Act of 1940 (“Advisers Act”) against Hilary L. Shane (“Shane” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Shane 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 her and the subject matter of these proceedings, and the findings contained in Section III.2 below, which are admitted, Shane consents to the entry of this Order Instituting Administrative Proceedings Pursuant to Section 15(b)(6) of the Securities Exchange Act of 1934 and Section 203(f) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions (“Order”), as set forth below.

III.

On the basis of this Order and Shane's Offer, the Commission finds that:

1. From July 1999 through January 2, 2003, Shane was a registered representative associated with a broker-dealer registered with the Commission. From at least September 2001 through the present, Shane also was the portfolio manager and acted as an investment adviser to several hedge funds. Shane, 37 years old, is a resident of New York, New York.

2. On May 25, 2005, a final judgment was entered by consent against Shane, permanently enjoining her from violations of Sections 5(a), 5(c) and 17(a) of the Securities Act of 1933 ("Securities Act"), Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, in the civil action entitled Securities and Exchange Commission v. Hilary L. Shane, Civil Action Number 05 CV 4772, in the United States District Court for the Southern District of New York.

3. The Commission's complaint alleged that on September 28, 2001, Shane learned material nonpublic information that CompuDyne Corporation planned to conduct a Private Investment in Public Equity or PIPE offering¹ and she later agreed to purchase shares of CompuDyne through the PIPE offering for her own personal account and for one of the hedge fund accounts she managed. The complaint alleged that Shane also agreed, both orally and in writing, to keep the information about the CompuDyne PIPE offering confidential. The complaint alleged that in breach of that duty of trust and confidence, Shane executed short sales in CompuDyne securities in both her personal account and the hedge fund's account before the public announcement of the PIPE offering on October 9, 2001. The complaint further alleged that as a result of her short selling prior to the public announcement of the CompuDyne PIPE offering and covering her short sales with the shares she obtained through the PIPE, Shane and the hedge fund made a total profit of \$296,785. The complaint also alleged that Shane continued shorting CompuDyne stock after the public announcement, when there was not a registration statement in effect for the resale of the PIPE shares. The complaint alleged that Shane ultimately shorted the same number of shares that she received in the PIPE offering and used the shares from the PIPE to cover her short sales, making an additional profit of \$356,153. The complaint further alleged that by short selling CompuDyne securities before the effective date of the resale registration statement

¹ In a PIPE transaction, an underwriter or "placement agent" privately places restricted securities of a public company with investors meeting certain criteria ("accredited investors"). Accredited investors enter into a purchase agreement with the public company committing the investors to purchase a certain number of shares at a specified price. The public company agrees, in turn, to file a resale registration statement with the Commission within a specified period so that the investors can resell the shares to the public. The investors do not pay for the shares until the closing of the transaction, which does not occur until a short time before or after the resale registration statement is declared effective.

for the CompuDyne PIPE shares and covering her short sales with the PIPE shares after the resale registration statement became effective, Shane engaged in unregistered sales of securities.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Shane's Offer.

Accordingly, it is hereby ORDERED:

A. Pursuant to Section 15(b)(6) of the Exchange Act, Respondent Shane be, and hereby is barred from association with any broker or dealer, and

B. Pursuant to Section 203(f) of the Advisers Act, Respondent Shane be, and hereby is suspended from association with any investment adviser for a period of 12 months, effective on the second Monday following the entry of the Order; and

C. Respondent Shane shall provide to the Commission within 15 days after the end of the 12 month suspension period described in paragraph IV.B above, an affidavit that she has complied fully with the suspension.

Any reapplication for association by Shane 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 Shane, 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.

By the Commission.

Jonathan G. Katz
Secretary