



and General Securities Corporation (“GSC”), a registered broker-dealer at the time.<sup>1</sup> The Texas court enjoined Mr. LaPorte from selling specified collateralized mortgage obligation mortgage-backed derivative securities (“CMOs”) for three years, enjoined him for an additional year from selling CMOs to public funds, individuals, or charitable, retirement or eleemosynary institutions, and enjoined him from any further violations of the Texas Securities Act or the rules promulgated thereunder. This disciplinary event causes Mr. LaPorte to be subject to a statutory disqualification pursuant to Section 3(a)(39)(F) of the Exchange Act.

Second, based on the same misconduct, Mr. LaPorte consented to, and the Commission entered, an Order Instituting Public Proceedings, Making Findings, and Imposing Remedial Sanctions (“Commission Bar Order”) suspending Mr. LaPorte from association with any broker, dealer, municipal securities dealer, investment adviser or investment company for 12 months, and barring him from associating in a supervisory capacity with any broker, dealer, municipal securities dealer, investment adviser or investment company with a right to reapply for association after three years.<sup>2</sup> This disciplinary event causes Mr. LaPorte to be subject to a statutory disqualification pursuant to Section 3(a)(39)(B)(i)(II) of the Exchange Act.

The Injunction and Commission Bar Order were based on misconduct occurring between March 1989 and March 1993 while Mr. LaPorte was president, chairman, and a general securities principal of GSC. This misconduct involved the fraudulent offer and sale of approximately \$100 million of CMOs by five general securities representatives and other GSC employees (collectively, “GSC employees”) to public customers. The public customers included municipalities and state educational institutions, whose investment objectives stressed safety of principal, liquidity, market stability, short maturities and low risk. The GSC employees represented the CMOs as consistent with the public customers’ investment objectives when they were in fact subject to a number of risks, including loss of principal, market risk, extension risk, and liquidity risk.

The Commission Bar Order found that Mr. LaPorte failed reasonably to supervise the GSC employees within the meaning of Section 15(b)(4) of the Exchange Act so as to prevent their violations of Section 17(a) of the Securities Act of 1933, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. Additionally, one of the employees involved in the misconduct was found to have been subject to a statutory disqualification as a result of a different Commission supervisory bar order, making him ineligible to exercise supervisory responsibility over GSC’s sales personnel. Despite this employee being subject to this statutory disqualification, he was promoted, with Mr. LaPorte’s knowledge, to Sales Manager of GSC and then to Executive Vice President and Managing Director of GSC.

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<sup>1</sup> Texas v. Government Securities Corp., Cause No. 156604-B (146th Dist. Tex. Nov. 17, 1995).

<sup>2</sup> In the Matter of Christopher LaPorte and Government Securities Corp., Exchange Act Release No. 39171 (Sept. 30, 1997).

Mr. LaPorte first qualified as a general securities representative in 1978 and as a general securities principal in 1985. Mr. LaPorte was associated with GSC from October 1979 to October 1997 and became associated with Coastal in July 1996 when Coastal hired most of GSC's employees and purchased some of GSC's assets. Mr. LaPorte was employed by Coastal until September 1997, at which time the Commission Bar Order was entered suspending him for 12 months from association in any capacity. In October 1998, following the conclusion of his suspension, Coastal again employed Mr. LaPorte in a non-supervisory capacity.

In the Application, NASD and Coastal represent that Coastal proposes to employ Mr. LaPorte as a general securities principal at Coastal's main office in Houston, Texas. As a general securities principal, Mr. LaPorte will act as the principal responsible for all aspects of the Firm's activities in "Guaranteed Loans and Pools."

In the Application, NASD and Coastal represent, among other things, that:

1. Coastal is a limited partnership with its main office in Houston, Texas. It became an NASD member in 1991, has three branch offices, and employs 18 registered principals and 72 registered representatives. Coastal conducts a municipal finance business as well as selling and trading taxable and municipal fixed income securities.
2. Mr. LaPorte indirectly owns, through LAPCO, Inc. ("LAPCO"), approximately 10 percent of Coastal's controlling general partner. Through LAPCO and certain trusts, Mr. LaPorte owns approximately 35 percent of Coastal's non-voting limited partnership units.
3. John Christopher Melton is the senior vice president and chief compliance officer of Coastal. Mr. Melton will serve as Mr. LaPorte's responsible supervisor and Coastal will amend its written supervisory procedures to clearly establish this fact. Mr. Melton has been associated with Coastal since 2002 and is qualified as a general securities representative, a financial and operations principal, and a municipal securities principal.
4. Mr. LaPorte will work on the trading floor at Coastal's main office. Mr. Melton's office is adjacent to the trading floor where he will be in plain sight of Mr. LaPorte. Mr. LaPorte will also have an office near Mr. Melton's office. Mr. LaPorte will receive a base salary and will be entitled to participate in a traders' bonus pool consistent with the manner of compensation of Coastal's other traders.
5. Mr. LaPorte's responsibilities will be limited to directing and supervising all aspects of Coastal's promotion, purchase, trading, and sale of government guaranteed loans and pools. Mr. LaPorte will also act as a trader of these products. As a general securities principal, Mr. LaPorte will supervise the government guaranteed loans and pools trading desk.

6. Margaret Dunlap, a compliance specialist with Coastal, or another similarly qualified registered representative designated by Mr. Melton, will review Mr. LaPorte's supervisory and trading activities (including markups), as well as his correspondence and transactions on a daily basis. The designated representative will report this information to Mr. Melton on a daily basis.
7. Mr. LaPorte will not have any involvement in or supervision of Coastal's activities in the purchasing, selling, or trading of CMOs.
8. An exception report will be generated under the initials "CLAP" and reviewed daily by Ms. Dunlap, or another similarly qualified registered representative, to ensure that Mr. LaPorte is not purchasing, selling, or trading CMOs. A summary of these reports will be prepared by Ms. Dunlap, or another similarly qualified registered representative, and provided to Mr. Melton on a weekly basis.
9. Mr. Melton will conduct a compliance meeting with Mr. LaPorte at least once a month to discuss the terms and conditions of the plan of heightened supervision. A record of these meetings will be kept in Mr. LaPorte's file.
10. Coastal must obtain prior approval from NASD Member Regulation if it wishes to change Mr. LaPorte's responsible supervisor from Mr. Melton to another person.
11. Mr. LaPorte meets all applicable requirements for the proposed association.

In the Application, NASD seeks an order declaring that, notwithstanding the statutory disqualification, the Commission:

- (1) Will not institute proceedings pursuant to Sections 15(b)(4), 15(b)(6), 19(h)(2), or 19(h)(3) of the Exchange Act solely on the basis of Mr. LaPorte's association as a general securities principal with Coastal pursuant to the representations contained in the Application; and
- (2) Will not direct NASD to bar the proposed association, as provided in Section 15A(g)(2) of the Exchange Act.

The Division of Market Regulation, pursuant to delegated authority, has reviewed the instant application and the record before NASD. Relying on the representations made by NASD and Coastal concerning the proposed association of Mr. LaPorte,<sup>2</sup> the Division of Market Regulation has concluded that it is appropriate for the Commission to approve the Application for Mr. LaPorte to associate as a general securities principal with Coastal.

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<sup>2</sup> All representations, terms, and conditions of employment not specifically listed are incorporated herein by reference. This Order is further conditioned on NASD's Rule 19h-1 notice filing, which includes Coastal's MC-400 application to NASD. This application details more specific terms and conditions related to Mr. LaPorte's heightened supervision to which he is also subject at Coastal.

Accordingly, IT IS ORDERED that said Application of NASD on behalf of Coastal and Mr. LaPorte be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>3</sup>

Nancy M. Morris  
Secretary

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<sup>3</sup> 17 CFR 200.30-3(a)(4).