

STATE OF WASHINGTON  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
SECURITIES DIVISION

IN THE MATTER OF determining  
Whether there has been a violation of the  
Securities Act of Washington by:  
EXPANSION CAPITAL MANAGEMENT, INC. and  
MICHAEL JOSEF MEYER,  
Respondents.

SDO - 00 - 82

SUMMARY ORDER DENYING  
INVESTMENT ADVISER AND INVESTMENT  
ADVISER REPRESENTATIVE  
REGISTRATION

Case No. 00-02-52

THE STATE OF WASHINGTON TO: Michael Josef Meyer and Expansion Capital Management, Inc.  
201 Galer St. Apt. 304  
Seattle, WA 98109

**STATEMENT OF CHARGES**

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondent, Michael Josef Meyer, has engaged in dishonest and unethical practices in the securities business while employed as a principal and registered securities salesperson for Expansion Capital Securities, Inc., and that those practices and violations justify the denial of Respondent Expansion Capital Management, Inc.'s application for investment adviser registration, and Respondent Michael Josef Meyer's application for investment adviser representative registration pursuant to RCW 21.20.110(1)(f).

The Securities Administrator finds as follows:

**TENTATIVE FINDINGS OF FACT**

1. Expansion Capital Management, Inc. ("ECMI") is a Washington corporation which filed a Form ADV application for registration as an investment adviser with the Securities Division of the State of Washington Department of Financial Institutions (Securities Division").

SUMMARY ORDER DENYING INVESTMENT 1  
ADVISER AND INVESTMENT ADVISER  
REPRESENTATIVE REGISTRATION

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360-902-8760

1 2. Michael Josef Meyer ("Meyer"), listed on Schedule A of ECMI's Form ADV application as the President of  
2 ECMI and the owner of 75-100% of the shares of ECMI, filed a U-4 application for registration as an investment adviser  
3 representative with the Securities Division.

4 3. Meyer was the majority owner, general securities principal, financial and operations principal, municipal  
5 securities principal, options principal for Expansion Capital Securities, Inc. ("ECSI"), a securities broker-dealer and a  
6 member firm (CRD. No. 24121) of the National Association of Securities Dealers, Inc. (NASD"). Meyer was also a  
7 securities salesperson (CRD No. 1755164) employed by the firm.

8 4. On January 25, 1993 the NASD's District Business Conduct Committee No. 1 ("DBCC") issued Complaint  
9 No. C01930008 against ECSI and Meyer, which resulted in a written Decision issued by the Committee on May 24, 1993.  
10 The DBCC found that, in violation of Article III of the NASD's Rules of Fair Practice: (Cause One) ECSI, acting  
11 through Meyer, failed to prepare and maintain accurate books and records; (Cause Two) ECSI, acting through Meyer,  
12 failed to maintain required minimum net capital; (Cause Three) ECSI, acting through Meyer, intentionally and wilfully  
13 filed a false FOCUS Part IIA Report with the NASD; (Cause Four) ECSI and Meyer failed to provide information  
14 requested by the NASD; (Cause Five) ECSI, acting through Meyer, purchased securities from a customer at a price which  
15 was not fair and reasonable; (Cause Six) ECSI, acting through Meyer, purchased securities for the account of a customer  
16 with the customer's prior knowledge and consent; (Cause Seven) ECSI, acting through Meyer made false representations  
17 to a customer; (Cause Eight) ECSI, acting through Meyer, failed to report certain transactions as required by NASDAQ;  
18 and (Cause Nine) failed to disclose to clients that it made a market in certain securities that it bought from and sold to  
19 clients and failed to disclose the difference between the price which should have been reported to NASDAQ and the price  
20 paid by or to the customer. Based upon the above findings the Committee ordered that: (1) ECSI and Meyer be  
21 censured and fined \$159,275 joint and severally; (2) ECSI and Meyer pay restitution to a client in the amount of \$3,275;  
22 (3) ECSI be expelled from membership in the NASD; and (4) Meyer be barred from association with any NASD member  
23 in any capacity.

24 5. ECSI and Meyer appealed the Decision of the DBCC to the NASD's National Business Conduct Committee  
25 ("NBCC"), which issued a Decision dated January 24, 1994. In its Decision the NBCC upheld the DBCC's findings as

26 SUMMARY ORDER DENYING INVESTMENT 2  
27 ADVISER AND INVESTMENT ADVISER  
REPRESENTATIVE REGISTRATION

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1 to Causes One, Two, Three, Five, Seven, Eight and Nine, partially modified Cause Four, and dismissed Cause Six. The  
2 NBCC agreed with all the sanctions imposed by the DBCC against ECSI and Meyer, except that the joint and several fine  
3 was reduced to \$145,000. In its Decision the NBCC stated:

4 Under all of the circumstances, we, like the DBCC, believe that Meyer should be barred in all capacities, and that  
5 ECS should be expelled from membership in the NASD. We have considered that Meyer operated ECS with  
6 little or no concern for his regulatory and compliance responsibilities. . . . We have considered that Meyer,  
7 through ECS, engaged in deceptive practices to make it appear that the firm had sufficient capital to meet its net  
8 capital requirements. . . . Even after the NASD began its investigation of the firm's financial status, Meyer  
9 deliberately deceived the NASD by filing a false FOCUS Report. . . . Meyer further attempted to deter the  
10 NASD's investigation of the firm's financial condition by failing timely to respond to an NASD request for  
11 information. Respondents thereby placed public investors at risk and engaged in a fraud upon regulatory  
12 authorities. . . . We believe that respondents have demonstrated a "cavalier disregard" for their regulatory  
13 responsibilities, and a failure to understand that the regulations that govern the securities industry are in place  
14 specifically for the purpose of protecting public investors. (NBCC Decision, Page 23)

15 The DBCC Complaint and Decision and the NBCC Decision are attached as "Exhibit A" and are herein incorporated by  
16 reference.

17 6. RCW 21.20.110(1)(f) allows the director of the Department of Financial Institutions to by order deny  
18 registration of any investment adviser or investment adviser representative if the director finds that the order is in the  
19 public interest and that the applicant, or in the cause of a broker-dealer or investment adviser, any partner, officer, or  
20 director is the subject of an order of expulsion from membership in or association with a self-regulatory organization  
21 registered under the securities exchange act of 1934.

22 7. The NASD is a self-regulatory organization registered under the securities exchange act of 1934.

23 8. The NASD order was based upon facts which would currently constitute grounds for an order under RCW  
24 21.20.110(f).

1 **EMERGENCY**

2 9. The Securities Administrator finds that an emergency exists because Respondent Meyer knowingly and  
3 intentionally engaged in dishonest and unethical practices and such knowing and intentional conduct on the part of  
4 Respondent Meyer presents an immediate danger to the safety and welfare of the investing public were Respondents  
5 ECMI and Meyer to be registered to do business in the State of Washington during the pendency of these proceedings.

6 Based upon the above Tentative Findings of Fact, the following Conclusions of Law are made:

7 **CONCLUSIONS OF LAW**

8 1. ECSI, acting through Meyer as described above, engaged in one or more dishonest or unethical practices in the  
9 securities business, as defined by WAC 460-21B-060(24) and WAC 460-22B-090(19) by failing to comply with  
10 applicable provisions of the NASD’s Rules of Fair Practice as set forth in each of the findings upheld by the NBCC. Such  
11 practices are grounds for the denial of investment adviser and investment adviser representative registration pursuant to  
12 RCW 21.20.110(1)(g).

13 2. Pursuant to RCW 21.20.110(1)(i), Meyer, given his method of operating ECSI, has not demonstrated that he  
14 is qualified, on the basis of training, experience or knowledge of the securities business, to own and operate and  
15 investment advisory firm.

16 **SUMMARY ORDER**

17 Based on the foregoing and finding it in the public interest;

18 NOW, THEREFORE, IT IS HEREBY SUMMARILY ORDERED that the application for investment adviser  
19 registration of Expansion Capital Management, Inc. and the application of Michael Josef Meyer for investment adviser  
20 representative registration are hereby denied pending a final determination in this proceeding.

21 **AUTHORITY AND PROCEDURE**

22 This SUMMARY ORDER is entered pursuant to the provisions of RCW 21.20.110 and is subject to the  
23 provisions of RCW 21.20.120, and is subject to the provisions of ch. 34.05 RCW. The respondents may make a written  
24 request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR

1 HEARING accompanying this order. If Respondents do not request a hearing in this matter, the Securities Administrator  
2 will, based on the foregoing Findings of Fact and Conclusions of Law, enter an order denying Expansion Capital  
3 Management, Inc.'s application for investment adviser registration and Michael Josef Meyer's application for investment  
4 adviser representative registration.

5 DATED this 25th day of August, 2000.

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8 DEBORAH R. BORTNER  
9 Securities Administrator

10 Presented by:

11 \_\_\_\_\_  
12 Nelda Shannon  
13 Securities Examiner

14 Approved by:

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16 Michael E. Stevenson  
17 Chief of Compliance

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24 SUMMARY ORDER DENYING INVESTMENT 5  
25 ADVISER AND INVESTMENT ADVISER  
26 REPRESENTATIVE REGISTRATION

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