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Texas State Securities Board

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IN THE MATTER OF §
THE AGENT AND INVESTMENT ADVISER §
REPRESENTATIVE REGISTRATIONS OF §
RUSSELL KENT CHILDS, §
THE DEALER REGISTRATION OF §
CAMBRIDGE LEGACY SECURITIES L.L.C., §
AND CAMBRIDGE LEGACY ADVISORS, INC. §

Order No. IC10-SUS-10

TO: Russell Kent Childs (CRD No. 1192883)
Cambridge Legacy Securities L.L.C.
4100 Spring Valley Road, Ste. 500
Dallas, TX 75244

Tom E. Fincher, President
Cambridge Legacy Securities L.L.C. (CRD No. 103722)
4100 Spring Valley Road, Ste. 500
Dallas, TX 75244

Brian P. Koepp, President
Cambridge Legacy Advisors, Inc. (IARD No. 119558)
4100 Spring Valley Road, Ste. 500
Dallas, TX 75244

DISCIPLINARY ORDER

Be it remembered that Russell Kent Childs ("Respondent Childs"), Cambridge Legacy Securities L.L.C. ("Respondent Cambridge Securities"), by and through Tom E. Fincher, its President, and Cambridge Legacy Advisors, Inc. ("Respondent Cambridge Advisors"), by and through Brian P. Koepp, its President, (collectively "Respondents"), appeared before the Deputy Securities Commissioner of the State of Texas ("Deputy Securities Commissioner") and consented to the entry of this order ("Order") and the Findings of Fact, Conclusions of Law, and Undertaking ("Undertaking") contained herein.

FINDINGS OF FACT

1. Respondents have waived (a) Respondents' right to notice and hearing in this matter; (b) Respondents' right to appear and present evidence in this matter; (c) Respondents' right to appeal this Order; and (d) all other procedural rights granted to Respondents by The Securities Act, TEX. REV. CIV. STAT. ANN. art. 581-1 *et seq.* (Vernon 1964 & Supp. 2009) ("Texas Securities Act") and the Administrative Procedure Act, TEX. GOV'T CODE ANN. § 2001.001 *et seq.* (Vernon 2008 & Supp. 2009) ("Administrative Procedure Act").
2. On or about June 13, 2000, Respondent Cambridge Securities registered with the Securities Commissioner of Texas ("Securities Commissioner") as a securities dealer, which is currently effective.
3. On or about April 30, 2002, Respondent Cambridge Advisors registered with the Securities Commissioner as an investment adviser, which was terminated on or about June 29, 2005, when Respondent Cambridge Advisors notice filed with the Securities Commissioner as a federally covered investment adviser.
4. On or about January 3, 2005, Respondent Childs registered with the Securities Commissioner as an agent of Respondent Cambridge Securities and as an investment adviser representative of Respondent Cambridge Advisors, which are currently effective.

In connection with Respondent Childs' registration, the Securities Commissioner entered Order No. IC05-SUS-01 ("Childs' Order"), whereby the Securities Commissioner ordered Respondent Childs to comply with statements of undertaking and agreement (the "2004 Undertaking") entered into by Respondents on December 29, 2004.

Supervision

5. Provision No. 8 of the 2004 Undertaking provided that:

"Childs, Cambridge Securities, Cambridge Advisors, and Shearer further undertake and agree that Childs will not act in any supervisory capacity within the State of Texas and will be directly supervised by Shearer."

Respondent Childs determined the salary paid to Shearer, paid such salary to Shearer as Shearer's employer, and reduced the salary paid to Shearer after the suspension discussed below, all of which created a conflict of interest that negated Shearer's ability to supervise Respondent Childs.

From on or about February 28, 2006 to on or about March 17, 2006, Respondent Childs suspended Shearer from activities in the branch office of Respondent Cambridge Securities and therefore was not directly supervised by Shearer during that time period.

On or about May 26, 2006, Respondent Childs requested Shearer resign from the branch office of Respondent Cambridge Securities and therefore was not directly supervised by Shearer after such time.

6. Provision No. 9 of the 2004 Undertaking provided that:

"Cambridge Securities, Cambridge Advisors, and Shearer further undertake and agree: (1) any temporary delegation of supervisory duties to supervise Childs ("the Delegated Person") will be in writing, for a specified period of time, and signed; (2) the Delegated Person will not be Childs; (3) the Delegated Person will not be subject to any statutory disqualification; and (4) Shearer will review and be responsible for the supervisory activity of any Delegated Person."

From on or about February 28, 2006 to on or about March 17, 2006, Respondent Cambridge Securities failed to issue a temporary delegation of supervisory duties to supervise Respondent Childs.

7. Provision No. 10 of the 2004 Undertaking provided that:

"Cambridge Securities, Cambridge Advisors, and Shearer further undertake and agree to establish, maintain and enforce written procedures that are reasonably designed to achieve compliance with all of the provisions of this Undertaking, and to maintain written and signed records of all supervision activities of Childs which are reasonably required by the provisions of this Undertaking."

Respondent Cambridge Securities failed to establish procedures reasonably designed to ensure that:

- A. Respondent Childs was directly supervised by Shearer, any delegation of supervisory duties was in writing, and Shearer reviewed and was responsible for the supervisory activity of any such delegated person.

Respondent Cambridge Securities failed to enforce procedures reasonably designed to ensure that:

- A. Respondent Childs did not engage in any unsuitable transactions;
- B. All forms and documents signed by clients/customers were completed in full prior to obtaining client's signature.

Compliance Review

8. Provision No. 12 of the 2004 Undertaking provided in part that Respondents undertook and agreed that, at a minimum of every six (6) months for a period of two (2) years from the date that Respondent Child's registrations were granted, all of Respondent Childs' accounts would be audited and any signed statements of findings of compliance concerns would be immediately reported to the Director of the Inspections and Compliance Division.

During the required audit period, Respondent Cambridge Securities did not audit all of Respondent Childs' accounts.

Respondents did not report the November 2005 and March 2006 audits, which resulted in signed statements of compliance concerns, to the Director of the Inspections and Compliance Division of the Texas State Securities Board.

Blank Forms

9. Provision No. 14 of the 2004 Undertaking provided that:

"Childs, Cambridge Securities, Cambridge Advisors, and Shearer further undertake and agree that all forms or documents signed by a client/customer will be completed in full prior to obtaining the client's signature."

Respondent Cambridge Securities' written supervisory procedures in effect from November 18, 2004 to at least on or about October 18, 2007 required that:

"V. C. New account forms must be completed in full prior to obtaining the client signature. Under no circumstances should a client sign a blank new account form (or any form)."

Between December 29, 2004 and December 30, 2006, blank forms and documents, including new account forms, were sent to customers of Respondent Childs with a request such customer sign and return the forms to be completed by employees of Respondent Childs. Further, forms and documents filled out in meetings with Respondent Childs were not completed in full prior to obtaining the client's signature. Additionally, some blank forms and documents were signed in duplicate by customers of Respondent Childs and then held in the customer's file to be completed at a later time, if necessary.

Complaint Resolution & Reporting

10. Respondent Cambridge Securities' written supervisory procedures in effect from November 18, 2004 to at least on or about October 18, 2007 required that:

"XV. RR's shall make a written record of any oral complaints...to facilitate notification through the appropriate channels.

The CLS [Cambridge Legacy Securities L.L.C.] Compliance Officer, or his/her designee, shall prepare and forward an appropriate response...

Settlement of errors involving corrections of statements, confirmations, and/or adjustments of money, must be achieved with the knowledge and participation of CLS's Compliance Department. Under no circumstances may a RR or DRP settle errors or complaints directly with customers, without the process described above."

On or about October 28, 2005, December 6, 2005, and October 24, 2006, Respondent Childs discussed customers' complaints directly with the customers without the participation of CLS's Compliance Department. Further, no written record was made by Respondent Childs and the CLS Compliance Officer prepared no response.

11. Respondent Cambridge Securities' written supervisory procedures in effect from November 18, 2004 to at least on or about October 18, 2007 also required that:

"XV. Disclosure Event Filing...The Compliance Officer must additionally file particular disclosure events outlined below within 10 days of notification of the occurrence of such event...Disclosure Event 2 – Customer Complaint."

On or about January 29, 2005, May 20, 2005, November 9, 2006, June 11, 2007, June 16, 2007, July 23, 2007, and October 18, 2007, Respondents received complaints from customers of Respondent Childs, however such complaints were not disclosed on Respondent Childs' Form U-4 until more than 30 days had passed from the date such complaints were received.

Unsuitable Transactions

12. Provision No. 5 of the 2004 Undertaking provided that:

"Childs further undertakes and agrees not to engage in any unauthorized or unsuitable transaction in the account of any Cambridge Securities or Cambridge Advisors customer..."

13. Respondent Cambridge Securities' written supervisory procedures in effect from November 18, 2004 to at least on or about October 18, 2007 required that:

"IV. J. Suitability: The NASD Conduct Rules require that every recommendation to an investor to purchase or sell a security must be suitable for that investor in light of the investor's financial circumstances, needs, investment objectives and other security holdings. Suitability is to be determined by taking into account all information furnished by the investor after reasonable inquiry and all information otherwise available to the RR with respect to the investor's income, assets (including life insurance), family responsibility, health, age, education, experience in investments, investment objectives, and the financial ability to bear the economic burden in the event of a loss."

"1. Variable Products Suitability: b) Liquidity: Early withdrawal frequently involves substantial charges and or tax penalties. Customers must be made aware that the liquidity and ease of access may be offset by negative impacts including deferred sales loads and tax penalties."

"6. Variable Contracts Sold by Application: ... should a variable product be sold to a tax-qualified plan, the Representative should memorialize the rationale for doing so. This memorandum will be maintained in the appropriate customer file."

14. Between December 29, 2004 and December 30, 2006, Respondent Childs failed to obtain sufficient suitability information in the accounts of multiple customers to determine whether transactions were suitable for such customers, including but not limited to, information on customers other security holdings, net worth, time horizon, income needs, and risk tolerance.

15. Between December 29, 2004 and December 30, 2006, Respondent Childs placed multiple customers of Respondent Cambridge Securities in unsuitable investments in light of such customers' age, risk tolerance, time horizon, liquidity needs, and other security holdings.
16. Respondent Childs sold variable annuities to customers that were to be held in such customers' individual retirement accounts without memorializing his rationale for doing so or maintaining such information in their customer file.

Fees

17. On or about December 22, 2004, Lease Equity Appreciation Fund II, L.P. issued the Lease Equity Appreciation Fund II, L.P. prospectus ("LEAF Prospectus"). Pages 67 - 68 of the LEAF Prospectus provide that "the subscription price for...registered investment advisors and their clients...will be reduced by an amount equal to the 7% sales commission, which will not be paid with respect to these sales."

During 2005 and 2006, Texas customers were sold limited partnership interests in Lease Equity Appreciation Fund II, L.P. with both a commission being charged and an investment advisory fee being assessed.

18. On or about October 6, 2006, Behringer Harvard REIT I, Inc. issued the Behringer Harvard REIT I, Inc. prospectus ("BH REIT Prospectus"). Page 216 of the BH REIT Prospectus provides that "We will not pay any selling commissions in connection with the following special sales:... (ii) the sale of the shares to investors whose contracts for investment advisory and related brokerage services include a fixed or "wrap" fee feature or other asset fee arrangement. In addition, we will not pay any selling commissions in connection with sales...through registered investment advisors."

During 2006, Texas customers were sold shares of Behringer Harvard REIT I, Inc. with both a commission being charged and an investment advisory fee being assessed.

19. Respondent Childs and Respondent Cambridge Advisors assessed investment advisory fees of up to 2% in the accounts of customers whose investments were highly concentrated in illiquid securities, variable annuities, and mutual funds, which were excessive in light of the services provided. Further, no specified criterion was used to determine the fee percentage to be assessed.
20. Respondent Cambridge Securities' written supervisory procedures in effect from November 18, 2004 to at least on or about October 18, 2007 required that:

"IV. I. 2. Charges: It is the responsibility of the RR to fully explain sales and administrative charges and management fees. The client should understand all costs relating to "front-end loads", "back-end loads" and "no-loads".

Multiple customers of Respondent Childs were not aware of the amount of the investment advisory fees assessed on their accounts, were not aware of the amount of commissions charged on transactions, or did not understand how Respondent Childs was compensated.

UNDERTAKING

Respondent Cambridge Securities and Respondent Childs undertake and agree:

1. That within twelve (12) months from the date this Order is signed by or on behalf of the Securities Commissioner, Respondent Cambridge Securities and Respondent Childs will refund commissions in the amounts set forth below, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), until such amounts are paid in full, to those investors in Lease Equity Appreciation Fund II, L.P. and Behringer Harvard REIT I, Inc. who invested through Respondent Childs and were charged both a commission and investment advisory fee; and
 - a. \$21,864.75 will be paid by Respondent Cambridge Securities;
 - b. \$412,724.28 will be paid by Respondent Childs, however Cambridge Legacy Group, Inc. has guaranteed such payment in the event of default by Respondent Childs;
 - c. The amount owed by Respondent Cambridge Securities and approximately 5% of the amount owed by Respondent Childs will be paid within fifteen (15) days of the date this Order is signed by or on behalf of the Securities Commissioner; and
 - d. The remainder will be paid to investors at least quarterly in approximately equal payments on a first in first out basis.
2. That within fifteen (15) days of each such payment, Respondent Cambridge Securities and/or Respondent Childs will provide the Director of the Inspections & Compliance Division of the Texas State Securities Board evidence of such payment.

CONCLUSIONS OF LAW

1. Respondent Childs' and Respondent Cambridge Securities' failure to have Respondent Childs directly supervised by Shearer, failure to put in writing a delegation of Shearer's supervisory duties, and failure to have Shearer review and be responsible for the supervisory activity of any delegated person constitutes a violation of the 2004 Undertaking and Childs' Order and is a basis for the issuance of an order reprimanding and suspending the registration of a dealer, agent, and investment adviser representative pursuant to Section 14.A(11) of the Texas Securities Act.

2. Respondent Cambridge Securities' failure to establish and enforce procedures reasonably designed to achieve compliance with the provisions of the 2004 Undertaking constitutes a violation of the 2004 Undertaking and is a basis for the issuance of an order reprimanding and suspending the registration of a dealer pursuant to Section 14.A(11) of the Texas Securities Act.
3. Respondent Cambridge Securities' failure to audit all of Respondent Childs' accounts and forward signed statements of compliance concerns to the Director of the Inspections and Compliance Division of the Texas State Securities Board constitutes a violation of the 2004 Undertaking and is a basis for the issuance of an order reprimanding and suspending the registration of a dealer pursuant to Section 14.A(11) of the Texas Securities Act.
4. Respondent Childs' failure to have all forms and documents completed prior to obtaining the client's signature constitutes a violation of the 2004 Undertaking and Childs' Order as well as an inequitable practice in the sale of securities and in rendering services as an investment adviser and is a basis for the issuance of an order reprimanding and suspending the registration of an agent and investment adviser representative pursuant to Sections 14.A(3) and 14.A(11) of the Texas Securities Act.
5. Respondent Childs' failure to comply with Respondent Cambridge Securities' written supervisory procedures constitutes an inequitable practice in the sale of securities and is a basis for the issuance of an order reprimanding and suspending the registration of an agent pursuant to Section 14.A(3) of the Texas Securities Act.
6. Respondent Cambridge Securities' failure to enforce its written supervisory procedures constitutes a violation of § 115.10(b)(1) of the Board Rules.
7. Respondent Childs' and Respondent Cambridge Securities' failure to disclose required information on Respondent Childs' Form U-4 constitutes a violation §115.9(a)(6) and §116.9(a)(6) of the Board Rules.
8. Respondent Childs' engaging in unsuitable transactions constitutes a violation of the 2004 Undertaking and Childs' Order as well as an inequitable practice in the sale of securities and in rendering services as an investment adviser and is a basis for the issuance of an order reprimanding and suspending the registration of an agent and investment adviser representative pursuant to Sections 14.A(3) and 14.A(11) of the Texas Securities Act.
9. Respondent Childs' and Respondent Cambridge Securities' assessment of commissions prohibited in an investment's prospectus constitute inequitable practices in the sale of securities and are the basis for the issuance of an order reprimanding and suspending the registration of dealer and agent pursuant to Section 14.A(3) of the Texas Securities Act.

10. Respondent Childs' and Respondent Cambridge Advisors' assessment of excessive investment advisory fees and failures to fully disclose such fees constitute inequitable practices in rendering services as an investment adviser and are the basis for the issuance of an order reprimanding or suspending the registration of an investment adviser and investment adviser representative pursuant to Section 14.A(3) of the Texas Securities Act and ordering Respondent Cambridge Advisors cease and desist from engaging in violations of the Texas Securities Act pursuant to Section 23 of the Texas Securities Act.
11. Pursuant to Section 14.A(6) of the Texas Securities Act, the foregoing violations constitute bases for the issuance of an order reprimanding and suspending a dealer, agent, and investment adviser representative.
12. Pursuant to Section 23-1 of the Texas Securities Act, the foregoing violations constitute bases for the issuance of an order assessing an administrative fine against a dealer, agent, and investment adviser representative.

ORDER


1. It is therefore ORDERED that Russell Kent Childs, Cambridge Legacy Securities L.L.C., and Cambridge Legacy Advisors, Inc. are hereby REPRIMANDED.
2. It is further ORDERED that the registrations of Russell Kent Childs as an agent for Cambridge Legacy Securities L.L.C. and an investment adviser representative for Cambridge Legacy Advisors, Inc., are hereby SUSPENDED for a period of nine (9) months. The period of such suspensions will be set in conjunction with the Financial Industry Regulatory Authority Letter of Acceptance, Waiver, and Consent to be executed by Russell Kent Childs in the near future. In the event that either registration of Russell Kent Childs is terminated before the end of this period, the related suspension period will be tolled from the date such registration of Russell Kent Childs is terminated to the date such registration of Russell Kent Childs is effective again.
3. It is further ORDERED that Russell Kent Childs is ASSESSED AN ADMINISTRATIVE FINE in the amount of Twenty-Five Thousand Dollars (\$25,000.00). Payment shall be made by delivery of a cashier's check to the Securities Commissioner in the amount of Twenty-Five Thousand Dollars (\$25,000.00), payable to the State of Texas, contemporaneously with the delivery of this Order.
4. It is further ORDERED that Cambridge Legacy Securities L.L.C. is ASSESSED AN ADMINISTRATIVE FINE in the amount of Fifty Thousand Dollars (\$50,000.00). Payment shall be made by delivery of a cashier's check to the Securities Commissioner in the amount of Fifty Thousand Dollars (\$50,000.00), payable to the State of Texas, contemporaneously with the delivery of this Order.
5. It is further ORDERED that Cambridge Legacy Advisors, Inc. immediately CEASE AND DESIST from engaging in violations of the Texas Securities Act.

SIGNED AND ENTERED BY THE DEPUTY SECURITIES COMMISSIONER this
1 day of April, 2010.

A handwritten signature in black ink that reads "John Morgan". The signature is fluid and cursive, with a large loop under the "J" and a horizontal line extending from the end of the "n".


JOHN MORGAN
Deputy Securities Commissioner

Respondents:



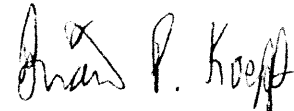
Russell Kent Childs

Cambridge Legacy Securities L.L.C.



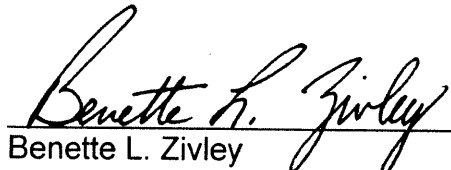
Tom E. Fincher, President

Cambridge Legacy Advisors, Inc.



Brian P. Koepp, President

Approved as to Form:



Benette L. Zivley
Director
Inspections and Compliance Division

Thomas D. Giachetti
Attorney for Respondents

Respondents:

Russell Kent Childs

Cambridge Legacy Securities L.L.C.


Tom E. Fincher, President

Cambridge Legacy Advisors, Inc.

Brian P. Koepp, President

Approved as to Form:

Benette L. Zivley
Director
Inspections and Compliance Division

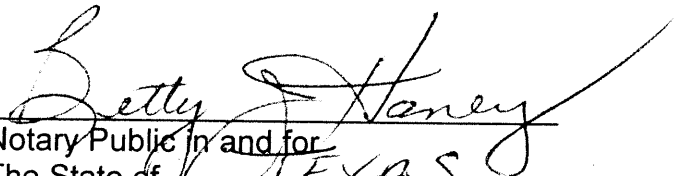


Thomas D. Giachetti
Attorney for Respondents

ACKNOWLEDGMENT

On the 18 day of MARCH, 2010, Cambridge Legacy Securities L.L.C. ("Respondent Cambridge Securities"), by and through Tom E. Fincher, its President, appeared before me, executed the foregoing Order, and acknowledged that:

1. Tom E. Fincher is duly authorized to enter into the foregoing Order on behalf of Respondent Cambridge Securities;
2. Tom E. Fincher has read the foregoing Order;
3. Respondent Cambridge Securities has been fully advised of its rights under the Texas Securities Act and the Administrative Procedure Act;
4. Respondent Cambridge Securities knowingly and voluntarily consents to the entry of the foregoing Order and the Findings of Fact and Conclusions of Law contained herein; and
5. Respondent Cambridge Securities, by consenting to the entry of the foregoing Order, has knowingly and voluntarily waived its rights as set forth therein.


Notary Public in and for
The State of TEXAS

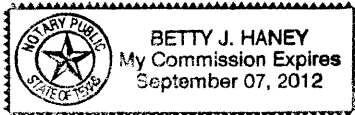
My commission expires on: 9-7-2012



ACKNOWLEDGMENT

On the 18 day of MARCH, 2010, Cambridge Legacy Advisors, Inc. ("Respondent Cambridge Advisors"), by and through Brian P. Koepp, its President, appeared before me, executed the foregoing Order, and acknowledged that:

1. Brian P. Koepp is duly authorized to enter into the foregoing Order on behalf of Respondent Cambridge Advisors;
2. Brian P. Koepp has read the foregoing Order;
3. Respondent Cambridge Advisors has been fully advised of its rights under the Texas Securities Act and the Administrative Procedure Act;
4. Respondent Cambridge Advisors knowingly and voluntarily consents to the entry of the foregoing Order and the Findings of Fact and Conclusions of Law contained herein; and
5. Respondent Cambridge Advisors, by consenting to the entry of the foregoing Order, has knowingly and voluntarily waived its rights as set forth therein.



[affix notary seal here]

Betty J. Haney
Notary Public in and for
The State of TEXAS

My commission expires on: 9-7-2012

ACKNOWLEDGMENT

On the 23rd day of March, 2010, Russell Kent Childs ("Respondent Childs") personally appeared before me, executed the foregoing Order, and acknowledged that:

1. Respondent Childs has read the foregoing Order;
2. Respondent Childs has been fully advised of his rights under the Texas Securities Act and the Administrative Procedure Act;
3. Respondent Childs knowingly and voluntarily consents to the entry of the foregoing Order and the Findings of Fact and Conclusions of Law contained therein; and
4. Respondent Childs, by consenting to the entry of the foregoing Order, has knowingly and voluntarily waived his rights as set forth therein.



[affix notary seal here]

Annette M. Latigue
Notary Public in and for
The State of Texas

My commission expires on: 3/25/2012