

**STATE OF ILLINOIS  
SECRETARY OF STATE  
SECURITIES DEPARTMENT**

**IN THE MATTER OF: CORMAC N. MAUGHAN**

**FILE NO. 0400542**

**NOTICE OF HEARING**

**TO THE RESPONDENT:**

Cormac N. Maughan  
(CRD #: 1528683)  
21 Radtke Road  
Randolph, New Jersey 07039

C/o The GMS Group, LLC  
5N Regent Street  
Suite 513  
Livingston, New Jersey 07039-9850

C/o Michael Underwood  
Attorney at Law  
STEEL HECTOR & DAVIS LLP  
215 S. Monroe Street  
Suite 601  
Tallahassee, Florida 32301-1804

You are hereby notified that pursuant to Section 11.E of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act") and 14Ill. Adm. Code 130, Subpart K, a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602, on the 21<sup>st</sup> day of September, 2005, at the hour of 10:00 a.m., or as soon as possible thereafter, before James L. Kopecky, Esq. Or such duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order shall be entered which would deny Cormac N. Maughan's (the "Respondent"), registration as a salesperson in the State of Illinois and/or granting such other relief as may be authorized under the Act including but not limited to the imposition of a monetary fine in the maximum amount pursuant to Section 11.E of the Act, payable within ten (10) business days of the entry of the Order.

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The grounds for such proposed action are as follows:

1. That on November 5, 2004, the GMS Group, LLC., a registered dealer, filed a Form U-4 application for registration of the Respondent as a salesperson in the State of Illinois;
2. That on July 5, 2005, a Summary Order of Denial (the "Order") was issued by the Secretary of State denying this application. Pursuant to the terms of the Order, the Respondent requested a hearing on July 28, 2005.
3. That on June 30, 2004, an Exchange Hearing Panel of the New York Stock Exchange Inc. (NYSE) accepted a Stipulation of Facts and Consent to Penalty entered into between the Exchange's Division of Enforcement and the Respondent (Decision) in File No. 04-97 which imposed the following sanctions:
  - a. censure; and
  - b. suspension for a period of one month from membership, allied membership, approved person status, and from employment or association in any capacity with any member or member organization.
4. That the Decision found:
  - a. X was born in 1932. In 1991, X opened a brokerage account with the Respondent while he was employed as a registered representative at a prior firm. The listed investment objective for his account was "income with diversification". X's only previous investment experience was purchasing certificates of deposit.
  - b. In 1993, X retired and began living on social security payments of approximately \$900 monthly. His other primary source of income was his brokerage account.
  - c. In 1995, X transferred his brokerage account to the Firm and the Respondent continued to handle it.
  - d. The Respondent handled X's account at the Firm from April 1995 through July 2000. During this period, X gave him oral authority to make all trading decisions for his brokerage account. The Respondent, however, did not obtain prior written authorization

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from X for such discretion.

- e. The approximate value of X's brokerage account when transferred to the Firm in April 1995 was \$5,800. Thereafter, during the period 1996 through May 2000, X made deposits totaling \$138,142 and received distributions totaling \$39,050.
- f. In August 1998, X informed the Respondent that he needed to generate income from his account for his living expenses. The Respondent updated the new account documents for X's account, changing the investment objective to "Taxable Income - Aggressive," and "Growth - Aggressive". According to the updated account documents, X was then a 65 year-old retiree with an annual income of \$35,000, and an approximate net worth of \$300,000.
- g. Thereafter, the Respondent began to effect transactions in aggressive and speculative stocks for X's account, sometimes trading on margin to leverage the trading. By at least March 2000, X's account was concentrated in aggressive and speculative technology, biotech and internet stocks. The majority of the stocks in X's account during the period January 1998 through July 2000 were held for 30 days or less.
- h. The frequency of trading and concentration in aggressive and speculative securities were unsuitable and excessive in view of X's age, investment objectives and financial circumstances.
- i. In 2000, when the market declined, X's account suffered trading losses, resulting in margin calls during March and April 2000. When X failed to meet these margin calls, the Firm liquidated some of the positions in his account, resulting in additional losses.
- j. In March and April 2000, the Respondent gave X three personal checks totaling \$33,200 to cover part of X's trading losses. At the time, the Firm was not aware of these payments.
- k. In August 2000, X filed a written complaint with the Firm regarding the Respondent's handling of his account. The complaint was settled by payment to X of \$29,000 and the Respondent contributed 50% of that amount, or \$14,500 to the settlement.

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1. That by virtue of the foregoing, the Respondent:
  - (i) Violated Exchange Rule 408(a) in that he exercised discretionary power with oral but not written authorization in the account of a customer of his member organization employer;
  - (ii) Engaged in conduct inconsistent with just and equitable principles of trade in violation of Exchange Rule 476(a)(6), in that he recommended and effected transactions for the account of one customer of his member organization employer that were unsuitable and excessive in view of the customer's age, investment objectives and financial circumstances; and
  - (iii) Violated Exchange Rule 352(c) in that he shared in the losses of an account of a customer of his member organization employer.
  
5. That Section 8.E(1)(j) of the Act provides, inter alia, that the registration of a salesperson may be denied if the Secretary of State finds that such salesperson has been suspended by any self-regulatory organization registered under the Federal 1934 Act or the Federal 1974 Act arising from any fraudulent or deceptive act or a practice in violation of any rule, regulation or standard duly promulgated by the self-regulatory organization.
  
6. That the NYSE is a self-regulatory organization as specified in Section 8.E(1)(j) of the Act.
  
7. That by virtue of the foregoing, the Respondent's registration as a salesperson in the State of Illinois is subject to denial pursuant to Section 8.E(1)(j) of the Act.

You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130) (the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

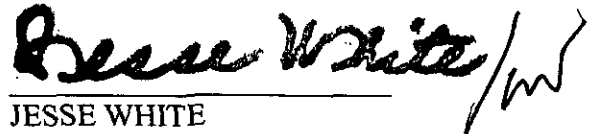
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A copy of the Rules under the Act pertaining to Hearings held by the Office of the Secretary of State, Securities Department, is included with this Notice.

Delivery of notice to the designated representative of any Respondent constitutes service upon such Respondent.

DATED: This 2nd day of August 2005.

A handwritten signature in black ink that reads "Jesse White" followed by a stylized flourish.

JESSE WHITE  
Secretary of State  
State of Illinois

Attorney for the Secretary of State:  
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Illinois Securities Department  
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Hearing Officer:  
James L. Kopecky  
321 North Clark Street  
Suite 2200  
Chicago, IL 60610  
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