

STATE OF ILLINOIS  
SECRETARY OF STATE  
SECURITIES DEPARTMENT

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IN THE MATTER OF: MADISON AVENUE SECURITIES, INC.

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) No. C1000341  
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AMENDED NOTICE OF HEARING

TO THE RESPONDENT: MADISON AVENUE SECURITIES, INC.  
CRD #23224  
15050 AVENUE OF SCIENCE  
SUITE 150  
SAN DIEGO, CALIFORNIA 92128  
  
c/o David Porteus  
Ulmer & Berne, LLP  
500 W. Madison Street  
Suite 3600  
Chicago, Illinois 60661

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953, [815 ILCS 5/1 *et seq.*] (the "Act") and 14 Ill. Adm. Code 130, Subpart K, a public hearing will be held at 300 W. Jefferson St. Suite 300A Springfield, IL., on the 16<sup>th</sup> day of July, 2014 at the hour of 10:00 a.m., or as soon thereafter as counsel may be heard, before Jon Ellis, or such other duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order should be entered against Madison Avenue Securities, Inc. which will provide for any of the following:

- a.) Suspends it from opening any new branch offices in Illinois;
- b.) Suspends it from employing and or registering any new salespersons;
- c.) Suspends it from opening any new accounts in the State of Illinois;
- d.) Suspends it from soliciting any new business from existing clients;
- e.) Suspends it from offering or selling any variable annuity, indexed annuity or variable life insurance product in the State of Illinois;

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- f.) Suspends its registration as a dealer in the State of Illinois; or
- g.) Revokes its dealer registration in the State of Illinois and grant such other relief as may be authorized under the Act including but not limited to imposition of a monetary fine in the maximum amount pursuant to Section 11 of the Act, payable within ten (10) days of the entry of the Order.

The grounds for such proposed action are as follows:

### Summary

This case involves a registered dealer and federally covered investment adviser, and its former securities salesperson, Algird Norkus, who defrauded 59 individuals of over \$7 million dollars while he was employed as a securities salesperson at Madison Avenue Securities.

Norkus conducted his scheme through Financial Update, Inc, a corporation he created and controlled. Financial Update, Inc. was his insurance agency. Financial Update was well known to Madison Avenue Securities because, as required by rule, Norkus reported it to Madison Avenue Securities as an outside business activity. In addition, Norkus deposited his commission payments from Madison Avenue Securities for securities transactions into Norkus' Financial Update, Inc. bank account. Norkus used this same bank account to perpetuate his fraud against investors.

Despite this knowledge, Madison Avenue Securities never monitored, reviewed or examined any of Norkus' Financial Update, Inc. books, records or accounts. If they had done so, their examiners would have discovered and prevented this fraud. In fact, the Chief Compliance Officer stated that it was Madison Avenue Securities' policy that once an outside business activity was reported to Madison Avenue Securities, the firm did not take any additional steps or precautions to supervise this activity.

Madison Avenue Securities' inadequate and deficient supervision extended further. Despite rules requiring internal audits of branch offices of Securities Dealers, Madison Avenue Securities had not conducted any internal audits of Norkus or his branch office from 2006 when he first began working for Madison Avenue Securities to 2010 when the fraud came to light.

Furthermore, the two most recent supervisors for Norkus were not located in Illinois and admitted that they never had spoken with him, met with him or visited his office. Additionally, it appears that from 2006 to mid 2010, Norkus had no official Madison Avenue Securities supervisor.

By their failure to supervise, Madison Avenue Securities allowed a \$7 million dollar fraud to take place that could have been prevented if Madison Avenue Securities had in place adequate supervisory procedures.

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1. Respondent, Madison Avenue Securities, Inc., ("Madison Avenue Securities") has been registered as a securities dealer in the State of Illinois since January 3, 2006 and has made notification filings in Illinois as a Federally Covered Investment Adviser since March 10, 2009. Madison Avenue Securities headquarters is located at 15050 Avenue of Science, San Diego, California.
2. Algird M. Norkus (CRD #2672384) ("Norkus") was employed by Madison Avenues Securities as a securities salesperson from May 19, 2006 through August 24, 2010. He was registered as a securities salesperson in Illinois from May 19, 2006 until his registration was permanently suspended on September 28, 2010 retroactive to his registration withdrawal on August 24, 2010.
3. Financial Update, Inc. (hereinafter at times "Financial Update") was at all relevant times herein an Illinois corporation with a last known business address of P.O. Box 4932, Oak Brook, Illinois 60533.
4. Norkus at all relevant times herein was the President, Secretary, and sole controlling employee and agent of Financial Update.
5. As early as 2006, Respondent, Madison Avenue Securities, was informed of the existence of Financial Update, which Norkus had reported to Madison Avenue Securities as an "outside activity" and/or a "business activity".
6. From January 2006 through August 2010, ("the Relevant Period") Norkus defrauded approximately 59 individuals, both Illinois and out of state residents ("Investors") by accepting approximately \$7.4 million from Investors for a purported business opportunity with Financial Update. Norkus converted and used the Investors' money for his own personal purposes rather than attempting to invest their money as promised.
7. In furtherance of his fraudulent scheme, Norkus used a bank account in the name of Financial Update. Norkus deposited checks from Investors into this account and sent purported investment payment checks to Investors from this account from 2006-2010.
8. Madison Avenue Securities knew of this Financial Update bank account due to the fact that commission payments for Norkus' securities transactions were deposited into this account.
9. By virtue of the acts set forth above, Madison Avenue Securities' salesperson, Algird M. Norkus, and Financial Update, Inc. violated Sections 12.F and 12.G of the Act.

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10. Accordingly, on September 28, 2010, and pursuant to a separate Order issued by the Secretary of State of Illinois, Algird M. Norkus and Financial Update, Inc. were permanently prohibited from offering or selling securities in the State of Illinois and the registration of Algird M. Norkus as a securities salesperson in the State of Illinois was permanently suspended.
11. On October 14, 2010, the Securities and Exchange Commission (SEC) filed a civil complaint against Norkus alleging that Norkus had defrauded investors in a \$6.4 million dollar Ponzi scheme.
12. On October 19, 2010, pursuant to the SEC civil complaint, Norkus agreed to a permanent injunction, asset freeze and disgorgement.
13. On February 7, 2011, The US Attorney's Office for the Northern District of Illinois filed a criminal information against Norkus alleging that he had engaged in a \$9 million dollar fraudulent investment scheme involving mail fraud.
14. On January 20, 2012, based upon his plea of guilty to one count of mail fraud, Norkus was sentenced to 63 months of imprisonment and restitution of \$4,560,975.40.
15. At least three of the Investors were clients of Norkus through Madison Avenue Securities and were the owners of variable annuity life insurance policies.
16. Norkus convinced these Investors to liquidate their variable annuity life insurance policies who then used the proceeds to invest in Norkus' fraudulent scheme.
17. Throughout the time in which Norkus was a securities salesperson and agent of Madison Avenue Securities, and specifically during the Relevant Period, Madison Avenue Securities had a duty to supervise Norkus' activities involving the sales and management of securities and insurance.
18. Madison Avenue Securities reported on the Central Registration Depository (CRD) that Norkus was working from a branch office in Schererville, Indiana.
19. At no time during the Relevant Period did Norkus maintain or keep any of his securities, insurance or any other business files at the Schererville, Indiana office, nor did he work from that office.
20. No Madison Avenue Securities supervisor, auditor or compliance officer met with Norkus, or reviewed his books and accounts, or investigated his outside securities sales activities at any time during the period.

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21. When interviewed, the Chief Compliance Officer admitted to the Department's Chief Special Agent that Outside Business Activity once reported is not reviewed or monitored. This included Norkus' Outside Business Activity: Financial Update.
22. The Chief Compliance Officer further stated during an interview that Norkus' most recent supervisor was Madison Avenue Securities' head trader located in Madison Avenue Securities' main office in San Diego, California.
23. This supervisor was interviewed by the Department's Chief Special Agent and stated that he had been the supervisor for Norkus only a few months and had never met or spoken to him.
24. The Department's Chief Special Agent also interviewed the previous Norkus supervisor who was also located in San Diego and who stated that he did not make any branch visits or conduct audits of branch offices. He further stated that during the time period he was the supervisor of Norkus, he had never spoken, emailed or visited him.
25. Prior to these two above-mentioned supervisors, Norkus had no officially designated Madison Avenue Securities supervisor.
26. In addition, Madison Avenue Securities, had never conducted an internal audit of Norkus and his branch office from 2006-2010.
27. During the Relevant Period, Madison Avenue Securities supervisors reviewed only Norkus' customers' securities accounts from their headquarters office in San Diego, California, but failed to review his bank accounts or other documentation that may have allowed them to discover Norkus' fraudulent activities.
28. In fact, all of the Madison Avenue Securities supervision of Norkus was attempted to be done through the San Diego office which is approximately 2000 miles and two time zones away from Illinois where Norkus was selling insurance, liquidating customers' insurance policies, and selling promissory notes and other securities.
29. During the Relevant Period, although Madison Avenue Securities employed approximately 175 registered representatives nationwide it provided only two supervisors, both in San Diego, to oversee all of these representatives, thereby maintaining an overworked and inefficient supervisory staff.
30. In fact, Norkus was unsupervised throughout the Relevant Period, and during the Relevant Period worked from his home or other unauthorized branch location.
31. The FINRA Rules of Supervision, Section 3010, provide, *inter alia*, "each member shall establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is

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reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules”.

32. Section 12.A of the Act provides, *inter alia*, that it shall be a violation of the Act for any person to offer or sell any security except in accordance with the provisions of the Act.
33. By virtue of the foregoing, Madison Avenue Securities has violated Section 12.A of the Act.
34. Section 8.E (1)(e)(i) of the Act provides, *inter alia*, that the registration of a dealer may be denied, suspended or revoked if the Secretary of State finds that the dealer has failed reasonably to supervise the securities activities of any of its salespersons and the failure has permitted or facilitated a violation of Section 12 of the Act.
35. Section 8.E (1)(e)(iv) of the Act provides, *inter alia*, that the registration of a dealer may be denied, suspended or revoked if the Secretary of State finds that the dealer has failed to maintain and enforce written procedures to supervise the types of businesses in which it engages and to supervise the activities of its salespersons that are reasonably designed to achieve compliance with applicable securities laws and regulations.
36. Section 8.E (1)(g) of the Act provides, *inter alia*, that the registration of a dealer may be denied, suspended or revoked if the Secretary of State finds that the dealer has violated any provisions of the Act.
37. Section 8.E(1)(m) of the Act provides, *inter alia*, that the registration of a dealer may be suspended or revoked if the Secretary of State finds that the dealer has conducted a course of dealing of such nature as to demonstrate an inability to properly conduct the business of the dealer.
38. By virtue of the foregoing the registration of Madison Avenue Securities, Inc. as a dealer is subject to a suspension or revocation pursuant to Section 8.E.1(e) (i), iv, (g) or (m) of the Act.
39. Section 11.E(4) of the Act provides, *inter alia*, that if the Secretary of State, after finding that any provision of the Act has been violated, may impose a fine as provided by rule, regulation or order not to exceed \$10,000.00 for each violation of the Act.
40. By virtue of the foregoing, Madison Avenue Securities, Inc. is subject to a fine of up to \$10,000.00 per violation, an order of censure and an order that suspends or revokes its Dealer registration in the State of Illinois.

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 or other responsive pleading within ten days of the receipt of this notice. Your

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failure to do so within the prescribed time shall be deemed an admission of the allegations contained in the Amended Notice of Hearing and waives your right to a 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.

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

Dated this 23<sup>rd</sup> day of May, 2014.

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

Jesse White  
Secretary of State  
State of Illinois

Attorney for the Secretary of State:  
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