

UNITED STATES ATTORNEY
SOUTHERN DISTRICT OF NEW YORK

DEFERRED PROSECUTION

TO: Prudential Securities Incorporated

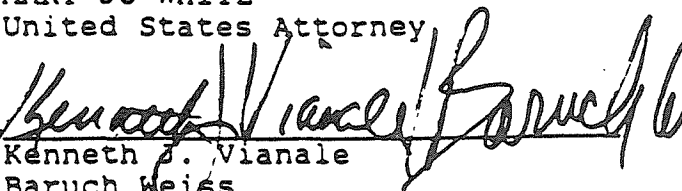
Magistrate Judge's
Docket No. 94-

On October 27, 1994, a criminal complaint was filed with a United States Magistrate Judge in the Southern District of New York, in which you are accused of committing an offense against the United States, to wit, committing fraud in the sale of limited partnership interests in the Prudential Bache Energy Income Funds in violation of 15 U.S.C. §§ 78j(b), 78ff; 17 C.F.R. § 240.10b-5; 18 U.S.C. § 2. However, after a thorough investigation it has been determined that the interest of the United States and your own interest will best be served by deferring prosecution in this District. Prosecution will be deferred during the term of your satisfactory compliance with the terms of this agreement for the period of three years from the signing of this agreement. The terms and conditions constituting your satisfactory compliance are set forth in the Cooperation Agreement filed simultaneously herewith.

If upon completion of this period you have complied with all the rules, regulations and conditions and special conditions, if any, above mentioned, no further prosecution will be instituted by the United States for the above offense.

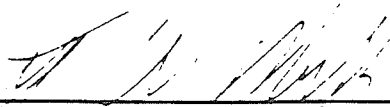
Dated: New York, New York
October 27, 1994

MARY JO WHITE
United States Attorney

By: 
Kenneth J. Vianale
Baruch Weiss
Assistant United States Attorneys

The undersigned hereby consents to the foregoing and expressly waives any and all rights to a speedy trial pursuant to the Sixth Amendment to the United States Constitution, Title 18, United States Code, Section 3161 (h) (2) and the Rules of the District Court of the Southern District of New York, or other pertinent provisions and consent to the adjournment of all pending proceedings in this case.

Dated: New York, New York
October 27, 1994



Attorney for Defendant

Defendant

The foregoing waiver of the defendant's right to a speedy trial is approved pursuant to Rule 5 (b) of the Second Circuit Plan for Achieving Prompt Disposition of Criminal Cases and the Rules of the District Court for the Southern District of New York.

Dated: New York, New York
October 27, 1994

United States Magistrate Judge



U.S. Department of Justice

United States Attorney
Southern District of New York

The Silvio J. Mollo Building
One Saint Andrew's Plaza
New York, New York 10007

October 27, 1994

Scott W. Muller, Esq.
Davis Polk & Wardwell
1300 I Street, N.W.
Washington, D.C. 20005

Carey R. Dunne, Esq.
Davis Polk & Wardwell
450 Lexington Avenue
New York, New York 10017

Re: Prudential Securities Incorporated

Dear Messrs. Muller and Dunne:

The Office of the United States Attorney for the Southern District of New York ("this Office") has received your letter on behalf of Prudential Securities Incorporated ("PSI") in connection with your request for a deferral of prosecution of PSI, a copy of which is attached hereto, but not a part of the terms hereof.

In recognition of PSI's willingness to cooperate with the this Office, the United States Postal Inspection Service, the United States Securities and Exchange Commission and any other law enforcement agency designated by this Office (hereinafter collectively referred to as "the governmental authorities"), the United States, on the understandings specified below, agrees that, except for criminal and civil tax violations (as to which this Office cannot and does not make any agreement), PSI, its direct and indirect subsidiaries, its parent Prudential Securities Group ("PSG"), and The Prudential Insurance Company of America ("The Prudential") and entities under common control will not be prosecuted by the United States for any crimes related to the sale of interests in the Prudential-Bache Energy Income Funds from 1983 to April 1990. This Agreement does not provide any protection to any individual or any entity other than as set forth above.

The understandings are that PSI shall truthfully disclose all information with respect to the activities of PSI, and its respective officers and employees concerning all matters about which the governmental authorities inquire of them, and shall cooperate fully with the governmental authorities. This obligation of truthful disclosure includes an obligation upon PSI to provide

to the governmental authorities, upon request, any document, record or other tangible evidence relating to matters about which the governmental authorities inquire of them. This obligation of truthful disclosure further includes an obligation to provide to the governmental authorities unlimited access to PSI's facilities, documents and employees.

Upon the request of this Office, with respect to any issue relevant to any criminal investigations, PSI shall designate knowledgeable employees, officers, agents, or attorneys to provide information and/or materials on PSI's behalf to the governmental authorities. It is further understood that PSI must at all times give complete, truthful, and accurate information. It is further understood that PSI must not commit any crimes whatsoever.

It is further understood that, with respect to any information, testimony, document, record, or other tangible evidence provided to the governmental authorities, or a grand jury, PSI consents to any and all disclosures of such materials as this Office, in its sole discretion, deems appropriate. With respect to any such materials that constitute "matters occurring before the grand jury" within the meaning of Federal Rule of Criminal Procedure 6(e), PSI further consents to (1) any order sought by this Office permitting such disclosure and (2) this Office's ex parte and/or in camera application for such orders.

It is further understood that PSI agrees to provide information and materials relating to legal advice provided prior to April 30, 1990 in connection with the offering and sale of the Prudential-Bache Energy Income Funds and factual information and materials provided to or gathered by counsel prior to October 21, 1993 in connection with the offering and sale of the Energy Income Funds. Such information and materials will not include or reflect communications between or among counsel relating to actual or potential litigation; analysis or advice concerning potential liability in, the handling of, or negotiations relating to, actual or potential litigation; or information or materials with respect to which a third party has a claim of attorney client privilege. By providing the foregoing materials or information, PSI does not intend to waive as to third parties any attorney client or other applicable privilege that may cover the materials or information.

It is further understood that PSI and PSG shall:

(a) on or before the filing of this Agreement, cause the sum of \$330 million to be added to the Fund established in the October 21, 1993 settlement with the Securities and Exchange Commission (the "SEC Agreement") and execute the attached stipulation providing a reversion to the United States Postal Inspection Service;

(b) comply with all the terms and conditions of the SEC

Agreement and retain a mutually acceptable outside counsel within 30 days of the filing of this Agreement to review PSI's policies and procedures in order to ensure that PSI has adopted all the compliance-related directives set forth in the SEC Agreement.

It is further understood that PSI, PSG and The Prudential shall:

(a) within 30 days of the filing of this Agreement, obtain a mutually acceptable new outside director to sit on the Board of Directors of PSG and the Compliance Committee of PSI. The new director will also serve as an independent "ombudsman" whom PSI employees can call anonymously with complaints about ethics and compliance. PSI shall report any allegations or instances of criminal conduct and material improprieties to the new director. The new director will submit compliance progress reports which shall identify all such allegations or instances of criminal conduct and material improprieties to this Office, the Board of PSG and the audit committee of The Prudential every three months for the duration of this agreement.

(b) not directly or indirectly transfer ownership or assets of PSI in such a way that would frustrate the purposes of this Agreement.

It is further understood that PSG and The Prudential will take all appropriate steps in their capacities as parent corporations to further PSI's compliance with this Agreement, provided however, that nothing herein shall be construed to impose any financial obligations on The Prudential in connection with the SEC Agreement.

Should PSI commit any crimes, or should this Office, in its sole discretion, determine that PSI has given false, incomplete, or misleading information, or should PSI otherwise violate any provision of this Agreement, or should PSG or The Prudential fail to meet their obligations under this agreement, PSI shall, in this Office's sole discretion, thereafter be subject to prosecution for any federal criminal violation of which this Office has knowledge, including, but not limited to obstruction of justice. Any such prosecutions may be premised upon any information provided by PSI. Moreover, any prosecutions relating to the Prudential-Bache Energy Income Funds that are not time-barred by the applicable statute of limitations on the date of the signing of this Agreement may be commenced against PSI in accordance with this Agreement, notwithstanding the expiration of the statute of limitations between the signing of this Agreement and the commencement of any such prosecutions. It is the intent of this Agreement to waive any and all defenses based on the statute of limitations with respect to any prosecutions relating to the Prudential-Bache Energy Income Funds which are not time-barred on the date this Agreement is signed.

Furthermore, it is agreed that in the event that this Office, in its sole discretion, determines that PSI has violated any provision of this Agreement, or should PSG or The Prudential fail to meet their obligations under this Agreement (i) all statements made by or on behalf of PSI to the governmental authorities, or any other testimony given by any agent of PSI before a grand jury or other tribunal, whether prior to or subsequent to this Agreement, or any leads from such statements or testimony, shall be admissible in evidence in any and all criminal proceedings hereafter brought against PSI and (ii) PSI shall not assert any claim under the United States Constitution, any statute, Rule 11(e)(6) of the Federal Rules of Criminal Procedure, Rule 410 of the Federal Rules of Evidence, or any other federal rule, that statements made by or on behalf of PSI prior to or subsequent to this Agreement, or any leads therefrom, should be suppressed. It is the intent of this Agreement to waive any and all rights in the foregoing respects.

The decision as to whether the conduct and/or statements of any individual will be imputed to PSI for the purpose of determining whether PSI has violated any provision of this Agreement shall be in the sole discretion of this Office.

It is further understood that this Agreement is binding on the United States, but cannot bind state or local prosecuting authorities, although this Office will bring the cooperation of PSI to the attention of other prosecuting offices or regulatory agencies, if requested by PSI's counsel.

With respect to this matter, this Agreement supersedes all prior, if any, understandings, promises, and/or conditions between this Office and PSI, PSG and the Prudential Insurance Company of America, except for the deferred prosecution agreement dated October 27, 1994 between PSI and this Office which is incorporated herein by reference. No additional promises, agreements, and conditions have been entered into other than those

set forth in this letter and the deferred prosecution agreement, and none will be entered into unless in writing and signed by all parties.

Very truly yours,

MARY JO WHITE
United States Attorney

By: *Kenneth J. Vianale / Baruch Weiss*
Kenneth J. Vianale
Baruch Weiss
Assistant U.S. Attorneys

APPROVED:

F. E. [Signature]
Chief, Criminal Division

Prudential Securities
Incorporated

By: _____

10/27/94
DATE

[Signature]

Scott W. Muller, Esq.
Carey R. Dunne, Esq.
Attorneys for PSI

10/27/94
DATE

Prudential Securities Group

By: *[Signature]*
Attorney for PSG

The Prudential Insurance Company
of America

By: *[Signature]*
Attorney for The Prudential

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October 13, 1994

Kenneth J. Vianale, Esq.
Assistant United States Attorney
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for the Southern District of New York
One Saint Andrew's Plaza
New York, New York 10007

Baruch Weiss, Esq.
Senior Trial Counsel
Office of the United States Attorney
for the Southern District of New York
One Saint Andrew's Plaza
New York, New York 10007

Dear Messrs. Vianale and Weiss:

We are writing on behalf of Prudential Securities Incorporated ("PSI") in connection with your office's investigation of the Prudential Bache Energy Income Fund limited partnerships that were marketed during the 1980s by the former Direct Investment Group of Prudential-Bache Securities, Inc. ("Pru-Bache"). The purpose of this letter is to set forth the principal reasons why we believe a criminal prosecution of PSI for the conduct of PruBache's former Direct Investment Group ("DIG") would not be warranted, and to request that your office avoid such a prosecution by entering into cooperation and deferral agreements.

Prudential Securities has changed dramatically since the 1980s. The Firm is under new management and it has instituted extensive new compliance procedures. It has apologized to past and current clients and has spent over \$1 billion to fund and administer the legitimate claims of partnership investors. It has actively worked with all

Kenneth J. Vianale, Esq.
Baruch Weiss, Esq.

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levels of the Government to resolve its past problems and get on with the business of serving its clients of today.

As we have discussed, the following are the central reasons, apart from the merits, why a criminal prosecution of PSI would be inappropriate and why cooperation and deferral agreements would be more appropriate:

1. The Limited Partnership Problems Occurred in the 1980s, and the Firm Has Dramatically Improved its Compliance Procedures Since Then

The various problems associated with the sale of limited partnership products by the Direct Investment Group were a phenomenon of the 1980s and were the direct result of PSI's explosive growth during that period -- a growth that was not matched by a concurrent expansion of PSI's Compliance Department. From 1983 to 1989, the number of PSI brokers grew from 3,846 to over 7,000, the number of branch offices grew from 240 to 378, and the number of customer accounts grew from 700,000 to 2.6 million. The Direct Investment Group, moreover, grew from a handful of employees in 1983 to 183 employees in 1989.

By the early 1990s, however, the expansion was substantially reversed. Between 1989 and 1993, the number of PSI brokers diminished from 7,012 to 5,500. The Direct Investment Group was disbanded and was no longer creating or marketing limited partnerships. (Its only remaining role was to administer those that remained.) Indeed, during this period the number of Direct Investment Group employees fell from 183 to 18.

At the same time, PSI's Compliance staff has steadily grown. In 1986 the Compliance Department had only 26 employees and a budget of \$1.1 million. By 1991 the Compliance Department had 60 full-time employees and a budget of \$4.7 million. Now, PSI has a Compliance staff of 95 and a Compliance Department budget of \$10.4 million. Given this vast increase in the number of people and the amount of resources that PSI has dedicated to compliance activities (as well as the extensive reforms that are discussed below), PSI's compliance procedures and its

business controls are now among the most sophisticated in the industry.

2. PSI Now Has Extensive, State of the Art Compliance Procedures

In early 1991, Hardwick Simmons replaced George Ball as the new CEO of PSI. Soon after becoming CEO, Simmons initiated a series of improvements and reforms to begin the process of creating an appropriate and unifying firm-wide culture. As a result of these reforms, there is now an independent and systematic review of the promotional materials that are provided to brokers; new product offerings are all reviewed and approved by disinterested parties; and broker training has been improved and compliance efforts have dramatically increased.

In a nutshell, the reforms included the following:

- PSI dramatically increased the size and resources of its Compliance Department. The Department now has an annual budget of \$10.4 million, and has 95 full-time employees.
- A Risk Management Group, comprised of senior executives who report to the CEO, was created to coordinate PSI's legal, compliance, and origination functions, and to ensure that all new products have been thoroughly reviewed before they are offered to customers.
- Business Review Committees were created in an effort to systematize the review of all of PSI's major transactions and business decisions. There are now eight Business Review Committees, organized by type of product or area of business. The committees meet regularly to consider and rule on the propriety of business transactions, and to resolve any policy decisions within their jurisdictions.
- A New Product Analysis Group was activated to evaluate any new product or service that PSI proposes to introduce. The group includes 20 members of senior management, representing all of

PSI's departments. As a result of their review, it is now impossible for any one department (such as the former Direct Investment Group) to originate, review, and sell a product without oversight by other departments.

- In order to improve the review of marketing and related materials, PSI created a Marketing Review Department and published a Marketing Review Guide for all branch managers and product area heads. The Marketing Review Department, which now consists of a director of marketing review and eight Marketing Review Coordinators, is designed to ensure that all marketing materials intended for public use receive a compliance review prior to distribution, and that internal-use-only materials are reviewed prior to, or shortly after, distribution.
- The Training Department was vastly expanded. PSI now spends more than \$70,000 to train each new financial advisor and the Training Department budget is now \$16.5 million. In June 1992, PSI completed a new training center for brokers in San Diego, at a cost of \$3.4 million. The firm also spent \$6.5 million renovating and expanding its New York training facility, where all of its training functions are centralized.
- PSI greatly enhanced its audit programs to detect and deter misconduct by brokers throughout the system, and new customer-related computer programs were installed which make it easier for compliance personnel to detect unauthorized trading activity.

Of course, no set of procedures can assure that compliance will be faultless. However, these changes, which were all voluntarily undertaken by PSI's new management, demonstrate PSI's commitment and good faith.

In October 1993, PSI entered into an unprecedented agreement with the SEC, the NASD and the 50 states, which resolved claims arising out of the Direct Investment Group's marketing of limited partnership products. As part of that settlement (the terms of which are more fully discussed in section 3, below), PSI agreed to undertake a series of

compliance reforms that were designed specifically to prevent a recurrence of the limited partnership problems. These new measures were developed jointly by PSI and the SEC. Coupled with additional steps which PSI has voluntarily undertaken, these new measures provide PSI with "state-of-the-art" compliance procedures.

The new measures include the following:

- A Compliance Committee has been established as a formal committee of the board of directors of PSI. The Compliance Committee has ultimate responsibility for all compliance functions at PSI, including adherence to the 1993 SEC agreement, thus guaranteeing accountability by the senior managers of the company.
- Regional Compliance Officers were appointed in each of the firm's eight regions. Each Regional Compliance Officer is responsible for monitoring the retail sales activity in his or her region for compliance with state and federal securities laws. The Regional Compliance Officers report, not to the Retail Department, but directly to the Deputy Director of Compliance in New York.
- The branch audits conducted by the Compliance Department and the Audit Department have been further refined and improved, to ensure that all deficiencies that are identified are promptly corrected.
- In addition to the various reviews described previously, virtually all marketing materials are now also reviewed by the Law Department.

On its own, PSI has gone beyond the requirements of the SEC Agreement. PSI has now established, in each of its regions, the new position of Regional Values Officer, whose job is to assist the regional personnel in meeting the new and complicated obligations that have been imposed by the expansion of the firm's compliance procedures during the past several years. PSI has also increased its training and scrutiny of branch managers and has stepped up the pressure on brokers to comply with every applicable rule. As a

result of these changes, PSI's compliance programs and its management structures have been radically reformed.

3. PSI is Funding the Legitimate Claims
of the Partnership Investors

Under the terms of its settlement with the SEC, PSI agreed, not only to pay \$330 million into a fund for the benefit of investors, but to pay any and all additional valid claims in excess of the \$330 million. In connection with this agreement, moreover, PSI voluntarily submitted to an elaborate, court-approved claims-review process, pursuant to which all investors who purchased limited partnerships from PSI have the right to submit claims to an independent administrator for expedited review. The administrator is [REDACTED], a former SEC Commissioner and Director of Enforcement. His office has stated that the settlement process has worked effectively.

Under the supervision of [REDACTED], PSI compiled a list of 340,000 limited partnership investors, and distributed to each investor a notice and claim form that spells out the investor's rights under the plan. Each investor has a one-year period in which to decide whether to submit a claim against the settlement fund. Once a claim is submitted, it is reviewed by a member of a team of analysts that PSI has hired to study the claims. The analysts evaluate each claim on the basis of criteria that have been agreed upon by the SEC and approved by the court, and, in response to each claim, either reject it or make a settlement offer. An investor who receives such an offer may accept it in whole or in part (in exchange for a release as to the particular partnership at issue), reject it in favor of expedited, binding arbitration administered by Mr. Pollack, or reject it in favor of civil litigation. PSI has agreed to pay all of the expenses of administering this settlement process; to date, PSI has paid over \$25 million in such expenses.

Another extraordinary aspect of the October 1993 settlement was PSI's decision to waive any and all statute of limitations defenses it could assert against investors who elect to make a claim against the settlement fund. This waiver enormously expanded PSI's potential liability, because a large percentage of the limited partnerships was

sold outside the statute of limitations period. Absent a waiver, many PSI customers would otherwise have had no claim against PSI. As a result of this process, it is already clear that PSI will pay out more in restitution and related amounts than any other firm in Wall Street history.

4. PSI has Accepted Responsibility for the Problems of Its Past and Has Paid More Than \$1 Billion in Compensation

Through the procedural changes it has made, and through the compensation it has paid, PSI has accepted responsibility for, and attempted to resolve, the limited partnership problems of the 1980s. To date, PSI has paid out over \$1 billion in settlements, fines and expenses in connection with limited-partnership-related claims, including \$330 million in its 1993 settlement with the SEC; \$41 million in fines to state and federal regulators; \$490 million in settlements of arbitrations and lawsuits; and \$185 million in expenses and legal fees. In the case of the Prudential Bache Energy Income Funds (the "Energy Income Funds"), which involved the sale of \$1.4 billion in product to over 100,000 investors from 1983 through April 1990, PSI made a class-action settlement for over \$90 million. These amounts in the aggregate far exceed the profits derived by PSI from the sale of direct investment products.

PSI has made these settlement payments because it recognizes that there were problems in the marketing of the limited partnerships. In the case of the Energy Income Funds, which have been the subject of the Government's investigation, PSI acknowledges that misstatements were made by DIG, which disseminated "internal use only" promotional materials to instruct the brokers on some of the features of the Energy Income Funds. Certain of these materials, without additional explanation, directly compared the cash distributions paid by the funds to interest payments that could be obtained on certificates of deposit, money market instruments and bonds. In reality, however, as DIG knew, such unexplained comparisons were false and misleading, since oil and gas are depleting assets, and since Energy Income Fund investors would thus have to look to their cash distributions, not just for their profit, but for a return of their original investment capital as well. (By contrast, the interest payments on CD's, money markets and bonds

consist of interest or profit.) While Pru-Bache (in 1984 and thereafter) disclosed in the prospectuses for the Energy Income Funds (and in a glossy wrapper that contained the prospectus) that the cash distribution rates on the Energy Income Funds were not readily comparable to rates of return on fixed income investments, some internal promotional materials distributed to brokers after 1984 nevertheless made such comparisons without additional explanation.

While the funds provided certain limited tax advantages, some internal promotional materials, without additional explanation, characterized the cash distributions as, in part, "sheltered" and "tax advantaged yield" and as "tax free" income. As DIG knew, these characterizations, in particular contexts, overstated the tax advantages and created the false impression that the Energy Income Funds were like municipal bonds in the sense that a portion of their otherwise taxable income would be exempt from tax.

Finally, DIG sometimes made misstatements concerning the past and expected future performance of the funds. In the wake of the crash in oil and gas prices in 1986, some internal DIG promotional material suggested, without additional disclosure, that prior funds had a proven record of financial success. As DIG knew, however, this suggestion was misleading in the particular context and in the absence of additional information, because the 1986 crash in oil and gas prices had a significant adverse impact on the performance and prospects of certain prior partnerships. Similarly, DIG sometimes falsely stated that particular results could be anticipated with no or only slight increases in oil and gas prices. In some of these instances, DIG knew that it was making these statements without regard to whether they were true or false.

PSI regrets these misstatements and, as detailed above, is committed to ensuring that such misstatements will not be made again.

5. PSI has Cooperated Extensively
in Governmental Investigations.

In addition to devoting unprecedented sums to compensate injured customers, PSI has been actively cooperating with the SEC and with Government in this case.

Kenneth J. Wianale, Esq.
Baruch Weiss, Esq.

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October 10, 1994

During the SEC's investigation, PSI voluntarily provided information and evidence relating to the limited partnership issues. In the present investigation, PSI has retained independent counsel for all of the current and former PSI employees that the Government has sought to interview. Rather than encouraging these individuals to adopt a "company line," PSI instead made it clear that it would not enter into any joint-defense agreements, and that it was going to cooperate with the Government and let "the chips fall as they may." Indeed, without any prompting by the Government, PSI went so far as to insist that all of its current and former employees voluntarily provide information to the Government, on penalty of losing their employment or the advancement of their attorney's fees. PSI has also complied with every Government request for formal and informal assistance. PSI has volunteered information, offered assistance and cooperated to the fullest extent possible with the Government's investigation.

* * *

For all of the reasons discussed above, PSI should not be the subject of a prosecution. First, given the amounts that PSI has already paid, and the well-publicized nature of the limited-partnership problems, no "punitive" or "deterrent" purpose would be served. Second, given PSI's already-unlimited commitment to pay compensation where appropriate, a prosecution would bring no benefit to the limited partnership purchasers. Third, given the extensive changes in PSI's management and compliance procedures, there is no "remedial" need for a prosecution here. Finally, a prosecution would be seriously unfair, given PSI's cooperation and its demonstrated good faith.

Having now taken every possible step to resolve the partnership problems of the past and fund legitimate claims from investors, PSI deserves a resolution of the Government's investigation which avoids, rather than imposes, further stigma and punishment.

In order to provide PSI with the opportunity to move forward and demonstrate that it is dedicated to succeed with the changes it has made, we ask that your office, on behalf of the United States, refrain from prosecuting PSI with respect to the matters you have been investigating and that the parties instead enter into a cooperation and

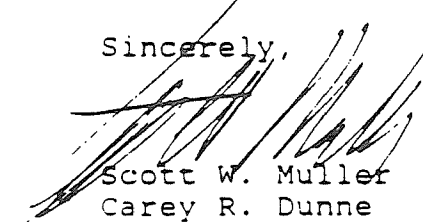
Kenneth J. Vianale, Esq.
Baruch Weiss, Esq.

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October 13, 1994

deferral arrangement pursuant to which PSI will commit to abide by certain conditions for a period of time, after which, if the conditions have been met, the Government will be constrained from pursuing prosecution and any potential charge arising from your investigation will be dropped. As we have discussed, PSI would, in connection with such agreement, continue to cooperate with the Government.

Sincerely,



Scott W. Muller
Carey R. Dunne

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

PRUDENTIAL SECURITIES INCORPORATED,

Defendant.

93 Civ. 2164 (HEG)

PETITION TO MODIFY FINAL ORDER

1. Plaintiff SECURITIES AND EXCHANGE COMMISSION ("COMMISSION") hereby petitions the Court, pursuant to Section XIII of the Court's FINAL ORDER PURSUANT TO SECTION 21(e) OF THE SECURITIES EXCHANGE ACT OF 1934, entered herein on October 21, 1993 (the "FINAL ORDER"), for entry of the annexed SUPPLEMENTAL ORDER ON CONSENT ("SUPPLEMENTAL ORDER"), modifying the FINAL ORDER to provide for:

(A) payment by or on behalf of defendant PRUDENTIAL SECURITIES INCORPORATED ("PSI") of an additional Three Hundred Thirty Million Dollars (the "Supplemental Payment") into the Fund established under paragraph III.A.1. of the FINAL ORDER; and

(B) disposition of any portion of the Supplemental Payment remaining at the time specified in paragraph III.B.1(d) of the FINAL ORDER to the United States Postal Inspection Service, rather than to the United States Treasury, as that paragraph currently provides.

2. Defendant PSI consents to these modifications to the Final Order in order to effectuate certain provisions of the Cooperation Agreement between PSI and the United States Attorney for the Southern District of New York, entered on October 27, 1994

(the "Cooperation Agreement"). The Cooperation Agreement requires PSI, among other things, to make the Supplemental Payment to the Fund.

3. Under the Cooperation Agreement, the Supplemental Payment, together with any income generated through the investment of such monies, shall become part of the Fund administered by the Court-approved Claims Administrator *nunc pro tunc* from its deposit into the Fund. After any monies currently remaining in the Fund are substantially exhausted, the Supplemental Payment shall be used in accordance with the provisions of the FINAL ORDER, with the sole exception that the Claims Administrator shall pay any remainder at the time specified in the FINAL ORDER to the United States Postal Inspection Service, rather than to the United States Treasury.

4. For the foregoing reasons, the COMMISSION respectfully requests that the Court enter the annexed SUPPLEMENTAL ORDER.

SECURITIES AND EXCHANGE COMMISSION

By: Thomas C. Newkirk
Thomas C. Newkirk, D.C. Bar # 225748
450 Fifth Street, N.W.
Washington, D.C. 20549
(202) 942-4500

Dated: Washington, D.C.
October 26, 1994

The foregoing is consented to by
PRUDENTIAL SECURITIES INCORPORATED

Davis Polk & Wardwell

By: [Signature]
Attorneys for Prudential
Securities Incorporated
1300 I Street, N.W.
Washington, D.C.

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

PRUDENTIAL SECURITIES INCORPORATED,
Defendant.

)
)
) 93 Civ. 2164 (HHG)
)
)
)

)
) SUPPLEMENTAL ORDER
) ON CONSENT
)
)

Upon the application of plaintiff, SECURITIES AND EXCHANGE COMMISSION ("COMMISSION"), to modify the FINAL ORDER PURSUANT TO SECTION 21(e) OF THE SECURITIES EXCHANGE ACT OF 1934 filed herein on October 21, 1993 ("FINAL ORDER") pursuant to paragraph XIII⁴ thereof, and defendant, PRUDENTIAL SECURITIES INCORPORATED (hereinafter "PSI"), having consented to such application, and the Court finding good cause to modify the FINAL ORDER:

NOW THEREFORE, IT IS HEREBY ORDERED that, in accordance with the Cooperation Agreement entered into on October 27, 1994, between PSI and the United States Attorney for the Southern District of New York, PSI shall cause Three Hundred Thirty Million Dollars (\$330,000,000) (the "Supplemental Payment") to be deposited into the Fund defined in paragraph III.A.1. of the FINAL ORDER.

IT IS FURTHER ORDERED that the Supplemental Payment, together with any income generated through the investment of such monies, shall become part of the Fund nunc pro tunc; PROVIDED, HOWEVER, that the Supplemental Payment shall not be used until the CLAIMS ADMINISTRATOR, in his sole discretion, determines that the monies

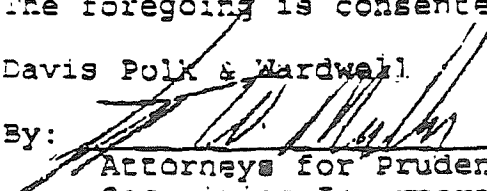
10/20/94 EN 170

currently in the Fund are substantially exhausted. Subsequent to that determination, the Fund, as supplemented, shall be used in accordance with Paragraph III.B. of the FINAL ORDER, except as hereinafter set forth.

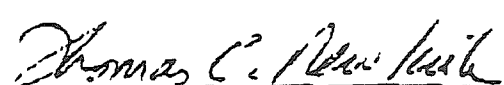
IT IS FURTHER ORDERED that the United States Postal Inspection Service shall be substituted for the United States Treasury, in paragraph III.B.1(d) of the FINAL ORDER.

The foregoing is consented to by the parties.

Davis Polk & Wardwell

By: 
Attorneys for Prudential
Securities Incorporated

Securities and Exchange Commission

By: 
Thomas C. Newkirk
D.C. Bar # 225748

SO ORDERED.

UNITED STATES DISTRICT JUDGE

Dated: _____, 1994
Washington, D.C.