

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 8761 / December 20, 2006

SECURITIES EXCHANGE ACT OF 1934
Release No. 54972 / December 20, 2006

ADMINISTRATIVE PROCEEDING
File No. 3-12510

In the Matter of

SCOTT E. DREYER,

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER PURSUANT TO
SECTION 8A OF THE SECURITIES ACT OF
1933 AND SECTION 15(b) OF THE
SECURITIES EXCHANGE ACT OF 1934 AS
TO SCOTT E. DREYER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) and Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) against Scott E. Dreyer (“Respondent” or “Dreyer”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Section 8A of the Securities Act of 1933 and Section 15(b) of the Securities Exchange Act of 1934 (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

Respondent

1. Scott E. Dreyer, age 48, resides in Washington, DC. Dreyer was a Managing Director of Friedman, Billings, Ramsey & Co., Inc. ("FBR") and the head of FBR's trading desk from 1991, when he joined the firm, until April 26, 2005, the effective date of his resignation. From 1991 until September 2002, Dreyer also was a member of FBR's institutional sales staff, servicing a limited number of customer accounts. Dreyer entered the securities industry in 1981. Prior to joining FBR, Dreyer was associated with four other registered broker-dealers, including Johnston, Lemon & Co., Inc.

Other Relevant Entities

2. Friedman, Billings, Ramsey & Co., Inc. is a broker-dealer registered with the Commission since July 25, 1989. FBR, a Delaware corporation, is a subsidiary of Friedman, Billings, Ramsey Group, Inc. ("FBG"), a holding company for several entities that provide investment banking, institutional brokerage, specialized asset management and banking products and services. FBG is a Virginia corporation with its principal place of business in Arlington, Virginia, whose stock is registered under Section 12(b) of the Exchange Act and is traded on the New York Stock Exchange under the symbol "FBR."

3. CompuDyne Corporation ("CompuDyne"), a Nevada corporation with its principal place of business in Annapolis, Maryland, is a public safety and security business that provides, among other things, attack protection services, federal security systems, institutional security systems, and services enhancing public safety and justice. At all times relevant to this proceeding, CompuDyne's stock was registered pursuant to Section 12(g) of the Exchange Act and was traded on the NASDAQ under the symbol "CDCY."

Dreyer's Relevant Conduct

4. This matter involves Dreyer's unregistered sales of securities on behalf of FBR.

5. In September 2001, FBR entered into an investment banking relationship with CompuDyne whereby FBR agreed to serve as placement agent for a Private Investment in Public Equity Offering ("PIPE").² On September 24, 2001, FBR's Chairman and Co-Chief Executive

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

² In a PIPE transaction, a "placement agent" or underwriter privately places restricted securities of a public company with investors meeting certain criteria ("accredited investors"). Accredited investors enter into a purchase agreement with the public company committing the

Officer directed Dreyer, in his role as head of FBR's trading desk, to make a "deep market" in CompuDyne stock. At the time Dreyer received this directive, he knew that FBR owned no shares of CompuDyne stock, there was buying pressure in the market for CompuDyne stock, which was driving up the stock price, and he likely would need to sell short in order to comply with this directive.³

6. In accordance with this directive, Dreyer registered FBR with the NASDAQ as a market maker in CompuDyne, commenced trading in CompuDyne, and by the end of the day had sold short 8,475 shares of CompuDyne stock in FBR's proprietary account. During the period between September 25 and October 1, Dreyer reduced FBR's short position in CompuDyne stock.

7. In the first few days of October 2001, FBR's Chairman and Co-Chief Executive Officer again told Dreyer that FBR needed to be "very, very, active" in CompuDyne stock and that if the stock price continued moving up, FBR should sell short. Dreyer then sought advice from the head of FBR's Compliance Department to ensure that increasing FBR's short position was not improper under Regulation M.⁴ The head of Compliance authorized him to proceed. In response to the directive, Dreyer became "very, very active" in CompuDyne, resulting in an increased short position in CompuDyne stock in FBR's proprietary account.

8. At around the same time in early October, Dreyer learned that FBR's investment bankers were having difficulty obtaining investors for the CompuDyne PIPE offering. As a result, FBR's Chairman and Co-Chief Executive Officer asked Dreyer whether he could solicit one of the few FBR customers, who he serviced in his role as a member of FBR's institutional sales staff, to invest in the PIPE. The customer agreed to purchase 100,000 shares in the PIPE offering. Dreyer received a sales commission of \$10,000 from FBR for soliciting this customer's purchase of the PIPE shares.

investors to purchase a certain number of shares at a specified price. The public company agrees, in turn, to file a resale registration statement with the Commission within a specified period so that the investors can resell the shares to the public. The investors do not pay for the shares until the closing of the transaction, which does not occur until a short time before or after the resale registration statement is declared effective.

³ "Selling short" is a technique used by investors to, among other things, take advantage of an anticipated decline in the price of a stock. In general, a "short seller" sells shares of stock that he or she does not own, ultimately "covering" the sale with shares that the seller purchases at a later date. The hope is that the stock price will fall so the short seller can purchase the stock to cover the short sale at a lower price.

⁴ Rule 101 of Regulation M under the Exchange Act prohibits participants in a distribution of securities from, among other things, purchasing the securities during a certain restricted period prior to the determination of the offering price.

9. At approximately 11:44 a.m. on October 9, 2001, CompuDyne issued a press release announcing the CompuDyne PIPE offering. At the time of this announcement on October 9, FBR maintained a short position of 179,095 shares. After this announcement and through the end of trading on October 26, Dreyer, on behalf of FBR, purchased 173,800 and sold short 138,700 CompuDyne shares, resulting in a short position of 143,995 for FBR's proprietary account on October 26. At the time of these short sales, Dreyer anticipated using shares FBR's customers obtained in the PIPE offering to cover the shares he had sold short. Dreyer did not seek Compliance approval for this trading.

10. The resale registration statement for the PIPE shares was declared effective after the market close on October 29, at approximately 4:15 p.m. The closing price of CompuDyne stock on October 29 was \$13.90. Between 4:16 p.m. and 4:27 p.m., Dreyer, on behalf of FBR, purchased through principal transactions all 100,000 of this customer's PIPE shares as well as an additional 40,000 shares from two other FBR customers, who had acquired their shares through the PIPE, all for \$13.50 per share. By covering the then existing short position with PIPE shares from FBR's customers, Dreyer generated a profit for FBR of \$97,831.

11. As a result, by short selling CompuDyne stock prior to the effective date of the resale registration statement for the CompuDyne PIPE shares and covering those sales with shares purchased from FBR's customers who acquired shares in the PIPE offering, Dreyer, on behalf of FBR, in effect, sold FBR's customers' PIPE shares prior to their registration. At the time Dreyer executed the short sales of CompuDyne securities on behalf of FBR, there was no resale registration statement in effect with respect to the CompuDyne PIPE shares and sales of those shares were not exempt from registration.

12. As a result of the conduct described above, Dreyer willfully⁵ violated Section 5 of the Securities Act, which prohibits sales and offers of securities made without a registration statement being in effect or filed with the Commission.

Undertakings

In determining whether to accept the Offer, the Commission has considered the following undertakings by Dreyer:

13. Ongoing Cooperation. Respondent shall cooperate fully with the Commission in any and all investigations, litigations or other proceedings relating to or arising from the matters described in this Order. In connection with such cooperation, Dreyer has undertaken:

a. To produce, without service of a notice or subpoena, any and all documents and other information reasonably requested by the Commission's staff;

⁵ "Willfully" as used in this Offer means intentionally committing the act which constitutes the violation, Cf. Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000); Tager v. SEC, 344 F.2d 5, 8 (2d Cir. 1965). There is no requirement that the actor also be aware that he is violating one of the Rules or Acts.

b. To be interviewed by the Commission's staff at such times as the staff reasonably may request and to appear and testify truthfully and completely without service of a notice or subpoena in such investigations, depositions, hearings or trials as may be requested by the Commission's staff; and

c. That in connection with any testimony of Respondent to be conducted at deposition, hearing or trial pursuant to a notice or subpoena, Respondent:

i. Agrees that any such notice or subpoena for his appearance and testimony may be served by regular mail on his counsel, Samuel J. Winer, Esq., Foley & Lardner LLP, 3000 K Street, N.W., Suite 500, Washington, D.C. 20007; and

ii. Agrees that any such notice or subpoena for his appearance and testimony in an action pending in a United States District Court may be served, and may require testimony, beyond the territorial limits imposed by the Federal Rules of Civil Procedure.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Dreyer's Offer.

Accordingly, pursuant to Section 8A of the Securities Act and Section 15(b) of the Exchange Act, it is hereby ORDERED that:

A. Dreyer is censured.

B. Dreyer shall cease and desist from committing or causing any violations and any future violations of Section 5 of the Securities Act.

C. Within 30 days of the entry of this Order, Dreyer shall pay disgorgement of \$10,000 and prejudgment interest of \$3,370 to the United States Treasury. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Scott E. Dreyer as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Daniel M. Hawke, District Administrator, Philadelphia District Office, Securities and Exchange Commission, Mellon Independence Center, 701 Market Street, Suite 2000, Philadelphia, Pennsylvania 19106.

D. Within 30 days of the entry of this Order, Dreyer shall pay a civil money penalty in the amount of \$6,500 to the United States Treasury. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center,

6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Scott E. Dreyer as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Daniel M. Hawke, District Administrator, Philadelphia District Office, Securities and Exchange Commission, Mellon Independence Center, 701 Market Street, Suite 2000, Philadelphia, Pennsylvania 19106.

By the Commission.

Nancy M. Morris
Secretary