

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 52963 / December 16, 2005

INVESTMENT ADVISERS ACT OF 1940
Release No. 2462 / December 16, 2005

Administrative Proceeding File No. 3-12128

IN THE MATTER OF MARTIN J. DRUFFNER

The Commission today issued an Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934 (Exchange Act) and Section 203(f) of the Investment Advisers Act of 1940 (Advisers Act) and Notice of Hearing (the Order) against Martin J. Druffner of Hopkinton, Massachusetts.

The Division of Enforcement (Division) alleges in the Order that from approximately April 1996 until at least June 2003, Druffner was employed by Prudential Securities, Inc., then a registered broker-dealer and investment adviser. The Division also alleges that, on August 25, 2005, the United States Attorney for the District of Massachusetts filed a criminal Information against Druffner concerning his use of deceptive trading practices to market time in mutual funds. The Information charged Druffner with four counts of violating Section 10(b) of the Exchange Act and four counts of wire fraud. The case was filed in United States District Court for the District of Massachusetts and is entitled *United States v. Martin J. Druffner*, (Criminal No. 05-CR-10232JLT). The Information charged that, from at least 1999 through in or about October 2003, Druffner defrauded mutual funds by employing various deceptive and fraudulent acts and practices to execute prohibited market timing trades on behalf of seven hedge fund customers. According to the Information, Druffner's deceptive and fraudulent conduct consisted of three basic categories of conduct: (1) creating and using multiple customer account numbers; (2) creating and using multiple financial advisor, or "FA" numbers; and (3) making affirmative representations and material omissions to employees at mutual fund companies about the true nature and extent of his market timing, all for the purpose of avoiding detection by mutual funds. The Information alleges, among other things, that Druffner engaged in this conduct after he was notified, explicitly and repeatedly, both that mutual fund companies prohibited his customers' market timing activity, and, in some cases, that mutual fund companies had precluded Druffner from further trading because of repeated violations of their prospectus limitations. According to the Information, Druffner generated in excess of \$2,000,000 in net commissions as a result of his deceptive and fraudulent scheme. The Division further alleges that on September 19, 2005, Druffner pled guilty to the eight counts alleged in the Information, including the violations of Section 10(b) of the Exchange Act described above.

A hearing will be scheduled before an administrative law judge to determine whether the

allegations contained in the Order are true, to provide Druffner an opportunity to dispute the allegations, and to determine what, if any, remedial action is appropriate and in the public interest pursuant to Section 15(b) of the Exchange Act or Section 203(f) of the Advisers Act. The Order requires the Administrative Law Judge to issue an initial decision no later than 210 days from the date of service of the Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.