

UNITED STATES DISTRICT COURT
for the
DISTRICT OF RHODE ISLAND

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

TODD JOSEPH LASCOLA,
CPI INVESTMENT MANAGEMENT, INC., AND
CPA ADVISORS NETWORK, INC.,

Defendants.

CA 98 610L
Civil Action No.

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission") alleges the following:

PRELIMINARY STATEMENT

1. This is an emergency action to preclude Todd Joseph LaScola ("LaScola"), the brokerage and investment advisory firm CPA Advisors Network, Inc., ("CPA Advisors"), and CPI Investment Management, Inc. ("CPI Investment"), a registered investment advisor, from engaging in further fraudulent and unauthorized transactions, diversion of brokerage and advisory funds and misappropriation of customer and client funds. LaScola is a principal and a co-owner of CPA Advisors and is the sole owner of CPI Investment. Through CPA Advisors and CPI Investment, LaScola has defrauded dozens of CPA Advisors and CPI Investment customers and advisory clients by diverting more than \$6 million from their brokerage accounts.

2. LaScola transferred those funds to a bank account of a CPI Investment advisory client, the International Brotherhood of Electrical Workers, Local 99 ("IBEW") to repay the IBEW for

improper transactions CPI Investments had previously initiated on behalf of the IBEW. Through CPI, LaScola had invested approximately \$6.4 million of the IBEW's funds in three illiquid, high risk promissory notes that were not within the investment guidelines for the IBEW account. The IBEW was not aware of the purchases until it was notified by its custodian bank on November 13, 1998, that one of the notes was in default. On November 17 and 20, LaScola diverted the funds in response to the IBEW's threat to initiate legal action against LaScola unless he reversed his purchases of the promissory notes in the IBEW's advisory account.

3. Because no established secondary market existed for the promissory notes, LaScola could not simply sell them and credit the proceeds to the IBEW. Instead, he repaid the IBEW by diverting funds from other customers' or advisory clients' accounts. LaScola effected many of the fraudulent diversions through the improper use of the computer password of a CPA Advisors employee, which allowed LaScola access to the transaction execution system of CPA Advisors' clearing broker.

4. In a number of instances, the customers and clients did not have cash balances in their accounts necessary to fund the transfers. LaScola fraudulently converted many of those accounts to margin accounts without the customers' or clients' knowledge and obtained margin loans sufficient to repay the IBEW.

5. Approximately eighteen of the CPA Advisor customers received promissory notes originally issued to the IBEW in exchange for the transfer of their funds to the IBEW account. Under the terms of those customers' accounts, LaScola was generally required to obtain customer approval before purchasing securities on their behalf. Accordingly, he did not have authority to make the promissory note purchases that he made for the accounts. Moreover, as noted above, the reissued

notes were essentially nothing more than extensions of the original notes which already had been defaulted on. Twenty-three other customers and advisory clients received nothing in exchange for the funds LaScola diverted to the IBEW account.

6. When certain of the affected brokerage customers and advisory clients complained about the money missing from their accounts, LaScola made numerous false statements and misrepresentations including: (1) he had inadvertently transferred their funds to purchase bank certificates of deposit and the promissory notes; and (2) he was working to correct the mistake and had a buyer for the notes. LaScola also made false lulling statements and forged a document to mislead the defrauded customers and clients into believing that he would soon be able restore their funds to their accounts. To date, the funds have not been restored.

7. When it became clear to LaScola that he could no longer perpetuate his deception, he wrote a memorandum in which he admitted to intentionally making the unauthorized transfers of funds. LaScola stopped showing up to work shortly thereafter.

8. In addition to the unauthorized transfers of funds and purchases of promissory notes in November 1998, LaScola has engaged in a variety of other fraudulent conduct. For example, in January 1998, LaScola misappropriated \$200,000 given to CPI Investment for a mutual fund investment. Also, on or about December 11, 1998, LaScola transferred a total of \$127,000 from the accounts of two CPA Advisors customers and clients to the account of another CPA customer and client in order to cover a shortfall in the account created by the diversion of funds discussed above.

9. LaScola, CPA Advisors and CPI Investment directly and indirectly have engaged, are engaging or are about to engage in transactions, acts, practices and courses of business which constitute violations of Section 17(a) of the Securities Act of 1933 ("Securities Act"), as

amended, [15 U.S.C. § 77q(a)], and Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”), as amended, [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5]. LaScola and CPI Investment directly and indirectly have engaged, are engaging or are about to engage in transactions, acts, practices and courses of business which constitute violations and Sections 206(1) and 206(2) of the Investment Advisors Act of 1940 (“Advisors Act”) [15 U.S.C. §§ 80b-6(1) and 80b-6(2)].

11. The Commission seeks a Temporary Restraining Order immediately prohibiting the defendants from continuing to violate the anti-fraud provisions of the Securities Act and the Exchange Act. The Temporary Restraining Order is necessary to stop the defendants’ fraudulent conduct. The Commission also seeks other emergency equitable relief to minimize investor losses and to maintain the status quo pending final resolution of this action, including a freeze of certain assets and the appointment of a receiver for the advisory assets of CPI Investments.

JURISDICTION

12. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)], Section 21(d) of the Exchange Act [15 U.S.C. § 78(u)d)] and Section 209(d) of the Advisors Act [15 U.S.C. § 80b-9(d)].

13. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)], Sections 21 and 27 of the Exchange Act [15 U.S.C. §§ 78u and 78aa] and Section 214 of the Advisors Act [15 U.S.C. § 80b-14].

14. LaScola, CPI Management and CPA Advisors made and are making use of the means and instrumentalities of interstate commerce, of the mails, and/or of the means and

instruments of transportation or communication in interstate commerce in connection with the acts, omissions, and practices alleged herein.

THE DEFENDANTS

15. LaScola, thirty years old, is licensed as a registered investment adviser by the State of Rhode Island and the Commonwealth of Massachusetts and as a general securities representative (stock broker) and principal by the National Association of Securities Dealers. LaScola engaged, for compensation, in the business of advising others as to the value of certain securities, or as to the advisability of investing in, purchasing or selling certain securities. LaScola also held himself out to the investing public as an investment advisor. LaScola asserted his Fifth Amendment privilege against self-incrimination in lieu of providing substantive responses to questions in the Commission investigation that led to this action. LaScola resides in Warwick, Rhode Island.

16. CPI Investment is registered with the Commission as an investment adviser. CPI Investment engaged, for compensation, in the business of advising others as to the value of certain securities, or as to the advisability of investing in, purchasing or selling certain securities. CPI Advisors also held itself out to the investing public as an investment advisor. LaScola is the president and sole owner of CPI Investment. CPI Investment is a Delaware corporation, with its principal place of business in Providence, Rhode Island.

17. CPA Advisors is registered with the Commission as a broker-dealer and with the Commonwealth of Pennsylvania as an investment advisor. CPA Advisors engaged, for compensation, in the business of advising others as to the value of certain securities, or as to the advisability of investing in, purchasing or selling certain securities. CPA Advisors also held itself out to the investing public as an investment advisor. LaScola served as CPA Advisors' chairman of

the board of directors until at least December 24, 1998, and, through a holding company, owns fifty percent of CPA Advisors' stock. CPA Advisors is a Pennsylvania corporation with its principal places of business in Providence, Rhode Island, New York, N.Y., and Bensalem, Pennsylvania.

FACTS

LaScola's Unauthorized Transactions in November 1998

18. During 1997 and 1998, LaScola invested a total of approximately \$6.4 million in three promissory notes for the pension fund of the IBEW, a discretionary investment advisory client of CPI Management and LaScola. The promissory notes were issued by RBG Management Services, Inc. ("RBG"), a real estate development company located in Chicago, Illinois, and one or more real estate limited partnerships established by RBG. The notes had maturity dates that ranged from ninety days to seven years. The notes were well outside strict investment guidelines that the IBEW had established for its accounts. LaScola misrepresented to the IBEW's custodian bank that the notes were "AA" corporate bonds. The IBEW itself was not aware that LaScola had purchased the promissory notes.

19. In the summer of 1998, RBG informed LaScola that RBG would not be able to satisfy its obligation to repay one of the notes which was due to mature on August 15, 1998. That note was in the approximate amount of \$1.9 million. After LaScola sent a demand letter to RBG on behalf of the IBEW, LaScola and RBG extended the maturity date of the note to September 30. On September 23, RBG informed LaScola that it needed to further extend the maturity date to December 15. LaScola refused.

20. The IBEW first learned that LaScola had invested in the RBG instruments on its behalf on November 13, when the IBEW's custodian bank informed the IBEW that it owned a \$1.9 million RBG instrument. On that day, the custodian bank also informed the IBEW that the \$1.9 million

instrument was overdue and that, unless it was paid immediately, the custodian bank would reduce the value of the instrument on the IBEW pension fund's books to zero. The custodian bank also informed the IBEW later that day that LaScola had purchased additional RBG instruments on behalf of the union, totaling approximately \$4 million.

21. The IBEW immediately contacted LaScola and told him that, unless he liquidated the RBG instruments and restored the IBEW's funds to the account, the IBEW would take legal action. The IBEW gave LaScola a deadline of November 17, 1998.

22. On November 17, 1998 LaScola transferred approximately \$1.9 million to the IBEW's bank account from the securities accounts of eighteen of CPA Advisors' customers and clients. On the same day, LaScola instructed RBG to cancel the IBEW's \$1.9 million note. In place of the canceled note, LaScola further instructed RBG to issue new notes totaling approximately \$1.9 million to the CPA Advisors customers and clients from whose accounts he had transferred funds to the IBEW. The replacement notes for the \$1.9 million note reflect a maturity date of December 15, 1998 but, to date, RBG has made none of the payments due at maturity.

23. As of November 17, 1998 LaScola had not liquidated the other \$4 million of RBG promissory notes that he had purchased for the IBEW. After imposing a series of further short-term deadlines for liquidating those positions, an IBEW representative eventually told LaScola that he intended to recommend legal action to the IBEW's board of directors at a meeting scheduled for November 20, 1998, unless LaScola reversed the transactions before then.

24. On November 20, 1998 the day for which the board of directors meeting was scheduled, LaScola transferred approximately \$4 million to the IBEW from the securities accounts of

twenty-three other customers and clients of CPA Advisors. Unlike the \$1.9 million note, however, these twenty-three customers did not receive reissued notes from RBG.

25. Instead, LaScola simply began preparing fictitious promissory notes on his word processor. These promissory notes were purportedly payable to the remaining CPA Advisors customers and clients from whose accounts LaScola made unauthorized transfers. The fictitious promissory notes were in denominations roughly equal to the amounts transferred from their accounts, but were never signed by anyone on behalf of, or issued by, RBG.

26. LaScola effected the transfers by instructing the clearing broker for the customer accounts to wire the funds to the IBEW's custodial account. Many of the customers were neither brokerage customers nor investment advisory clients of LaScola. They had no affiliation with LaScola other than they were customers or clients of CPA Advisors, of which LaScola was a part owner. LaScola was able to effect transactions in their account by using the computer password of a CPA Advisors employee, which gave him access to the clearing firm's order execution system.

27. Many of the customers from whose accounts LaScola transferred funds to the IBEW, particularly those whose money LaScola transferred on November 20, 1998 did not have sufficient cash balances to fund the transfers. Accordingly, LaScola instructed the clearing broker to obtain margin loans from their securities positions. As a result, some of the customers and clients from whose accounts LaScola transferred funds to the IBEW are now highly margined. Those account holders may be vulnerable to margin calls (which would effectively require them to replace the funds that LaScola transferred to the IBEW) in the event of a market downturn or other event diminishing the value of the margined securities in their accounts.

28. The customers and clients from whose accounts LaScola diverted funds to the IBEW did not authorize LaScola to make those transfers. In fact, most or all of those clients had no knowledge of LaScola's intention to make the transfers. In addition, most or all of the account holders had not authorized the purchase of any promissory notes. LaScola also made no disclosures to the customers and clients who received replacement notes for the \$1.9 million IBEW investment that the notes that they received essentially constituted an extension of an obligation upon which RBG had previously defaulted. Finally, none of the fifteen account holders whose securities LaScola margined to facilitate the transfer of funds had authorized LaScola to margin their accounts.

29. One of the affected CPA Advisors brokerage customers was an individual who had just recently opened an account with CPA Advisors to invest \$800,000 he had received as settlement for a personal injury claim arising from a debilitating accident. The customer had instructed the CPA Advisors broker on the account to invest his money only in tax-free bonds. On November 20, 1998 LaScola margined the bonds in the account and transferred \$177,000 to the IBEW account. To date, the customer has received nothing in return.

30. On November 18, 1998 when LaScola was questioned about the unauthorized transfers, LaScola told a representative for several of the affected customers and clients that the transfers were the result of inadvertent purchases of bank certificates of deposits from the custodian bank. LaScola also claimed that the error occurred when he pushed the wrong computer key, stating that he could "not believe the power of the management [computer] password." LaScola provided repeated assurances that the error would be fixed immediately.

31. On November 22, 1998 LaScola told the same individual that he had corrected the purported inadvertent purchases of bank certificates of deposit, but that, in the process, he had

inadvertently purchased RBG promissory notes for the affected customers. Again, LaScola promised that the purportedly erroneous transactions would be corrected immediately. LaScola repeated that promise frequently through December 23, 1998.

32. While the examination staff of the Commission's Boston District Office was engaged in an examination of CPA Advisors' Rhode Island office, it became apparent to LaScola that he could no longer perpetuate his deception. On December 21, 1998 he wrote and signed a memorandum stating as follows:

To whom it may concern:

Please accept that I had placed the unauthorized transactions myself and used other [computer] logons to follow through with the transactions. No one else was involved in these transactions and I accept full responsibility.

Todd J. LaScola /s/

LaScola stopped showing up for work shortly thereafter.

33. At various times during the period from November 22 to December 23, 1998 LaScola indicated to affected customers that he expected to effectively reverse the transactions by selling the notes to investors, whom he claimed had agreed to purchase them. On one occasion, LaScola even falsely indicated that the IBEW had indicated a desire to repurchase the notes.

34. On another occasion, LaScola told a representative for some of the affected accounts that Prudential Securities, Inc., ("Prudential") would be purchasing the notes from the affected CPA Advisors brokerage customers and clients. He provided the representative with a letter purportedly signed by a vice-president at Prudential on its letterhead, suggesting that the described transaction was

imminent. Prudential, however, never considered such a transaction. The letter was "cut and pasted" from other correspondence to LaScola from Prudential.

35. At one point, LaScola represented that the transactions had been reversed and that the funds paid to the IBEW had been restored to the appropriate accounts. LaScola stated that the crediting of the funds was reflected on account statements that he had in his possession. However, the funds have never been returned to the customers nor have the account statements for the affected accounts ever reflected such an unwinding of the transactions.

Other Illegal Conduct by LaScola

36. LaScola has engaged in other instances of illegal conduct. For example, on January 26, 1998, one of CPA Advisors' customers or clients sent CPA Advisors a check payable to its clearing broker for \$600,000 for the purchase of three mutual fund investments. LaScola gained control of the check and altered it to reflect CPI Investment as an alternative payee. He then endorsed the check on behalf of CPI Investment and deposited it to CPI Investment's bank account. Only two of the three mutual fund investments were purchased, but LaScola repeatedly assured the investor that the third mutual fund investment (reflecting \$200,000 the investor had designated for that investment) would be posted to the investor's account. The mutual fund shares have never been deposited to the account, and the money has not been returned. Another owner of CPA Advisors told the investor on December 26, 1998, that the \$200,000 "is gone."

37. LaScola engaged in further illegal conduct on December 11, 1998, when he was confronted with a request from a CPA Advisors client to withdraw approximately \$127,000 for a real estate transaction. The client's account, however, did not have sufficient funds to cover the request at the time it was made, because the cash in the account had been depleted by LaScola's prior

unauthorized purchase of RBG promissory notes. LaScola diverted funds to the client's account from two other CPA Advisor accounts. Although the holder of one of the other accounts was the son of the client seeking the withdrawal, the holder of the second account was not related. LaScola did not have discretion over either account and neither the son nor the unrelated client had authorized the transfer of funds from their account to the account of the client seeking the withdrawal.

38. Finally, LaScola misled the IBEW to believe that he was not receiving commissions from RBG on the original sale of the notes to the IBEW. In fact, RBG paid him a commission of up to five percent. LaScola did not disclose to the IBEW or its representatives at the time of the sale that he was receiving such a commission. In fact, in December 1998, LaScola affirmatively misrepresented to the IBEW that he had not received any such commissions.

FIRST CLAIM FOR RELIEF

FRAUD IN CONNECTION WITH THE PURCHASE OR SALE OF SECURITIES

(Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)]
and Rule 10b-5 thereunder [17 C.F.R. 240.10b-5])

39. The allegations of Paragraphs 1 through 38 are realleged and incorporated by reference.

40. LaScola, CPI Investment and CPA Advisors, and each of them, directly or indirectly, singly and in concert, by the use of the means or instrumentality of interstate commerce or of the mails:

- (a) have employed, are employing or are about to employ devices, schemes, or artifices to defraud;

- (b) have made, are making or about to make untrue statements of material fact or have omitted, are omitting or are about to omit to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or
- (c) have engaged, are engaging or are about to engage in acts, practices, or courses of business which operated or are about to operate as a fraud upon persons,

in connection with the purchase or sale of securities.

41. By reason of acts, practices and courses of business set forth herein, which LaScola, CPI Investment and CPA Advisors participated in intentionally, knowingly or recklessly, LaScola, CPI Investment and CPA Advisors, and each of them, have violated, are violating or are about to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. 240.10b-5].

SECOND CLAIM FOR RELIEF

FRAUD IN THE OFFER OR SALE OF SECURITIES

(Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)])

42. The allegations of Paragraphs 1 through 38 are realleged and incorporated by reference.

43. LaScola, CPI Investment and CPA Advisors, and each of them, directly or indirectly, singly and in concert, by the use of the means or instrumentality of interstate commerce or of the mails:

- (a) have employed, are employing or are about to employ devices, schemes, or artifices to defraud;
- (b) have obtained, are obtaining or are about to obtain money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or
- (c) have engaged, are engaging or are about to engage in transactions, practices or courses of business which operate, are operating or are about to operate as a fraud upon persons,

in the offer or sale of securities.

44. By reason of acts, practices and courses of business set forth herein, which LaScola, CPI Investment and CPA Advisors each participated in intentionally, knowingly or recklessly, LaScola, CPI Investment and CPA Advisors, and each of them, have violated, are violating or are about to violate Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

THIRD CLAIM FOR RELIEF

FRAUD BY INVESTMENT ADVISOR

(Sections 206(1) and 206(2) of the Advisors Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)])

45. The allegations of Paragraphs 1 through 38 are realleged and incorporated by reference.

46. LaScola and CPI Investment and each of them, directly or indirectly, singly and in concert, by the use of the means or instrumentality of interstate commerce or of the mails:

- (a) employed devices, schemes, or artifices to defraud clients or prospective clients; and
- (b) engaged in transactions, practices or courses of business which operated as a fraud or deceit upon clients or prospective clients.

47. By reason of the acts, practices and courses of business set forth herein, which LaScola and CPI Investment each participated in intentionally, knowingly or recklessly, LaScola and CPI Investment, and each of them, have violated, are violating or are about to violate Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully request that this Court enter:

a. on an ex parte basis, a Temporary Restraining Order and Order for the Freezing of Assets and Other Equitable Relief ("TRO"), which, among other things:

(1) temporarily restrains and enjoins LaScola, CPI Investment and CPA Advisors, their officers, agents, servants, employees and attorneys and those persons in active concert with them who receive actual notice of the TRO from :

(A) violating, directly or indirectly, or aiding and abetting violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, Section 17(a) of the Securities Act and, with respect to LaScola and CPI Investment only, Sections 206(1) and 206(2) of the Advisers Act;

(B) altering, destroying, mutilating, concealing, or disposing of any and all items, including but not limited to documents, books, records, correspondence, contracts, agreements, assignments, obligations, tape recordings, computer media or other property of Defendants relating to financial or business dealings in connection with Defendants' securities brokerage or investment advisory business.

(2) requires LaScola and CPI Investments to submit financial accountings and immediately freezes their assets;

b. a preliminary injunction which extends the relief granted pursuant to the TRO through at least the final resolution of this matter;

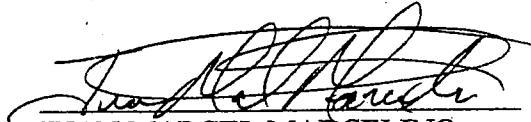
c. a final judgment:

(1) finding that LaScola, CPI Investment and CPA Advisors violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. 240.10b-5], Section 17(a) of the Securities Act [15 U.S.C. §77q(a)] and, with respect to LaScola and CPI Investment only, Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)];

(2) permanently restraining and enjoining LaScola, CPI Investment and CPA Advisors, their officers, agents, servants, employees and attorneys and those persons in active concert with them who receive actual notice of the final judgment from further violations of those provisions;

- (3) directing LaScola, CPI Investment and CPA to:
- (A) disgorge all gains and benefits they received unlawfully as a result of the conduct complained of herein, plus prejudgment interest on those amounts; and
 - (B) pay civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)], and Section 209 of the Investment Advisers Act [15 U.S.C. § 80b-9(e)]; and
- d. such other relief as this Court deems appropriate.

Respectfully submitted,


JUAN MARCEL MARCELINO
District Administrator

Kimberly M. Zimmer
Senior Trial Counsel
Massachusetts BBO # 636185

Carlos Costa-Rodrigues
Senior Counsel
Rhode Island Bar # 4213

David P. Bergers
Staff Attorney
Massachusetts BBO # 561045

Silvstre A. Fontes
Staff Attorney
Massachusetts BBO # 627971

ATTORNEYS FOR PLAINTIFF
SECURITIES AND EXCHANGE COMMISSION
73 Tremont Street, Suite 600
Boston, Massachusetts 02108
(617) 424-5900
(671) 424-5940 (telefacsimile)

Dated: December 29, 1998