

**COMMONWEALTH OF KENTUCKY
ENVIROMENTAL & PUBLIC PROTECTION CABINET
OFFICE OF FINANCIAL INSTITUTIONS
AGENCY CASE NO. 2008-AH- 008**

OFFICE OF FINANCIAL INSTITUTIONS

PETITIONER

V.

QUESTAR CAPITAL CORPORATION

RESPONDENT

Serve: Ruth Howell
Chief Compliance Officer
Questar Capital Corporation
5701 Golden Hills Drive
Minneapolis, MN 55416

SETTLEMENT AGREEMENT AND ORDER

BACKGROUND AND FACTUAL FINDINGS

1. The Office of Financial Institutions (“OFI”) is the agency of Kentucky state government charged with enforcement of the provisions of KRS Chapter 292 (the Kentucky Securities Act) and the rules and regulations enacted thereunder.

2. Questar Capital Corporation (“Questar”) is a registered Broker/Dealer, which is also registered as such in Kentucky with the OFI. Questar maintains its principal offices at 5701 Golden Hills Drive, Minneapolis, Minnesota 55416. Questar is doing business in the Commonwealth of Kentucky through its agents and representatives.

3. On or about September 30, 2005, Allianz Life Insurance Company of North America (“Allianz Life”), Allianz Capital, Inc. (“Allianz Capital”) and Yorktown Financial Companies, Inc. (“Yorktown”), d/b/a Questar Capital Corporation (“Legacy

Questar”), entered into an Agreement and Plan of Merger, whereby Allianz Capital merged with Yorktown to become Questar Capital Corporation (“Questar”), a wholly owned subsidiary of Allianz Life.

4. Legacy Questar’s Home Office was in Ann Arbor, Michigan. Its principal owners were Robert Boone, John Gakenheimer, Jason Kavanaugh, and Scott Chimner

5. Since September 30, 2005, Questar has moved its Home Office from Ann Arbor Michigan to Minneapolis, Minnesota. Questar has also changed its management and compliance operations from those which existed under Legacy Questar and maintains that it has improved and enhanced its compliance and supervisory processes.

6. On September 24 through 28, 2007, pursuant to the authority granted by KRS 292.330(12), the OFI, Division of Securities, conducted a routine examination of a branch office of Legacy Questar and Questar (Examination No. BD-IA-027), located at 3830 Taylorsville Road, Louisville, Kentucky 40220.

7. On October 31, 2007, the OFI issued written Statement of Findings (“Statement of Findings”) indicating areas of concern regarding the aforementioned branch office of Legacy Questar and Questar.

8. In Item 1 of the Statement of Findings, the OFI noted that as of the date of the examination, Registered Representative Tom Gorter was holding himself out as a “Registered Investment Adviser Representative” for Questar according to business cards, letterhead and door signage, when in fact, Gorter is not registered with the OFI, Division of Securities as an investment adviser representative. Gorter and John H. Gakenheimer, former president of Questar, were informed by the OFI on July 8, 2004

that Gorter was not a registered investment adviser representative and would not need to be registered as his only capacity is that of a solicitor. Several audits have been conducted by either Questar or a compliance Firm contracted by Questar that have failed to detect and correct the fact that Gorter has been holding himself out as an investment adviser representative and has been collecting advisory compensation (with his percentage totaling approximately \$546,685.28) as such consistently during the period from 7/1/2004 through 11/19/2007.

9. It is the responsibility of the Registered Representative to obtain all necessary and appropriate licensing for his or her investment business.

10. KRS 292.330(1)(a) provides that it is unlawful for any person to transact business in the Commonwealth of Kentucky as an investment adviser representative unless that person is so registered under this statutory chapter.

11. In response to OFI's Statement of Findings, Questar acknowledged that Gorter is not registered in Kentucky or with Questar or any related entity as an investment adviser representative. Questar further acknowledged that Gorter had held himself out as an investment adviser representative and that Questar would have Gorter discontinue use of any communication with that title, including business cards and that it would ensure that Gorter obtain new business cards using the title of Registered Representative or similar title for securities activities.

12. In further response to OFI's Statement of Findings, Questar, through its affiliate Questar Asset Management, Inc. ("QAM"), began reviewing all of the client accounts and directed that Gorter undertake the appropriate study to pass the appropriate registration. QAM also began to closely supervise the client

transactions, and after Gorter did not pass the requisite examination, QAM began the transfer of the clients to Gorter's supervisor, Norman Meyer, who is a registered investment adviser representative with that entity.

13. Questar placed Gorter on heightened supervision status on July 1, 2007.

This heightened supervision status includes the following components:

- Compliance with all rules and regulations set forth in the Registered Representative Agreement between Questar and Gorter, Questar's Registered Representative Handbook, and Questar's Written Supervisory Procedures.
- Gorter is to forward all written and electronic outgoing correspondence to his Office of Supervisory Jurisdiction ("OSJ") prior to client dissemination. His OSJ must review and approve all written and electronic correspondence prior to client dissemination.
- Order tickets for business transacted on the brokerage platform will be reviewed and approved by Gorter's OSJ on the trade date.
- Gorter will not be assigned any supervisory function over any other registered representatives and will not act in any other principal or managerial capacity.
- All complaints, written or oral, received by Gorter must be immediately (within 2 business days) directed to Gorter's OSJ and Questar's Chief Compliance Officer for review and response.

- All marketing material, sales literature, promotional material, seminars, etc. will be reviewed by Gorter's OSJ and forwarded to the compliance department for review and approval prior to use.
- Any change in supervisory responsibility must be approved by the Chief Compliance Officer prior to the change.
- Gorter shall submit to a thorough review of his office, including personal and business records, all other financial records and all electronic communications on a quarterly basis.
- Gorter shall market and sell annuity and securities products registered and approved in the prospect's home state.
- Gorter's OSJ shall submit quarterly reports for a period of 12 months to Questar's Divisional Vice President. Those reports will document the supervisory activities conducted by the OSJ regarding Gorter.
- The OSJ shall conduct quarterly on-site inspections of Gorter's office which shall include, at a minimum, a review of no less than 10 client files and a review of books and records retained in Gorter's office.

14. Since Questar placed Gorter on heightened supervision, the OSJ has conducted two audits of Gorter's office—one on July 9, 2007 and another on November 1, 2007.

15. Questar has denied that it is in violation of any applicable state or federal law as a result of the above referenced examination by the OFI and expressly denies any liability, fault or wrongdoing resulting therefrom. Without admitting liability, but

to resolve this matter without further litigation or adversary proceedings, Questar has agreed to compromise and settle all claims arising from the above referenced examination by the OFI in accordance with the terms set forth herein.

AGREEMENT AND ORDER

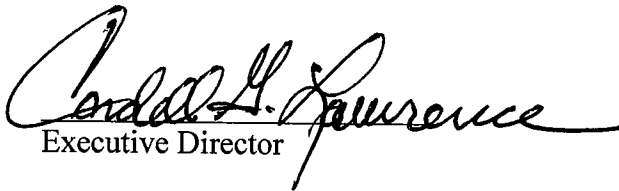
The Office of Financial Institutions and Questar Capital Corporation, in the interest of economically and efficiently resolving the issues raised in the foregoing Background and Factual Findings, agree as follows:

1. Questar Capital Corporation agrees to pay a fine in the amount of Fifty Four Thousand, Six Hundred Sixty Eight Dollars and Fifty Three Cents (\$54,668.53) for failure to adequately supervise the activities of its registered representative and for permitting him to hold himself out as a registered investment adviser representative from 2004 to 2007, which fine shall be made payable to the "Kentucky State Treasurer" and mailed to the Office of Financial Institutions, Attn: William B. Owsley, 1025 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601, on or before the date of execution of this Settlement Agreement and Order.
2. Questar Capital Corporation agrees to continue to place its Registered Representative, Tom Gorter, on heightened supervision status consistent with the guidelines, requirement and components set forth above in paragraph 9 of the Background and Factual Findings for a minimum period of one (1) year from the date of execution of this Settlement Agreement and Order. This requirement to continue heightened supervision activities shall terminate in the event that Questar and Gorter

sever their relationship prior to the expiration of one (1) year from the date of execution of this Settlement Agreement and Order.

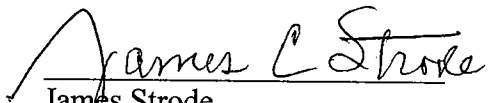
3. Questar agrees that Gorter shall not be entitled to any compensation relating to advisory accounts unless and until he qualifies as an investment adviser representative and is so licensed.

IT IS SO ORDERED on this the 4th day of ~~January~~ ^{February}, 2008.


Executive Director

Consented To:


This 4th day of ~~January~~ ^{February}, 2008


James Strode
Director
Division of Securities
Kentucky Office of Financial Institutions

AND

This 31 day of January, 2008

QUESTAR CAPITAL CORPORATION

BY: 
ITS: 