

OFFER OF SETTLEMENT

This Offer of Settlement is made voluntarily as of the 19th day of August, 1993, to the United States Attorney for the District of Massachusetts ("USAO"), the Attorney General for the Commonwealth of Massachusetts ("MASSAG") and the Massachusetts Securities Division ("MASD") (hereinafter, in the aggregate, the "Investigating Authorities"). This Offer of Settlement is voluntarily made by AETNA Capital Management, Inc. ("ACM"), and AETNA Financial Services, Inc. ("AFSI"), both corporations organized and existing under the laws of the State of Connecticut with their principal place of business in Hartford, Connecticut. (ACM and AFSI, together with their affiliates and subsidiaries are sometimes hereinafter, in the aggregate, referred to as "AETNA.") This offer is made pursuant to the agreement with the USAO and MASSAG attached hereto as attachment A and the consent order of the MASD, attached hereto as attachment D.

This offer is submitted for the purpose of settlement only and is submitted with the express understanding that it will not be used in any way in any proceedings by any of the Investigating Authorities unless the offer is accepted by the Investigating Authorities as hereinafter set forth. If this offer is not accepted by the Investigating Authorities, the offer is withdrawn without prejudice and shall not become part of the record in any proceedings by any of the Investigating Authorities.

WHEREAS, the Investigating Authorities have been conducting investigations into compensation arrangements between

AETNA and Carmen W. Elio relating to securities and financial advisory services sold to certain governmental contributory retirement systems primarily in the Commonwealth of Massachusetts (the "Massachusetts systems");

WHEREAS, AETNA has been cooperating with the Investigating Authorities' investigations;

WHEREAS, AETNA wishes to resolve various investigations now pending before the Investigating Authorities;

WHEREAS, AETNA neither admits nor denies the allegations, facts, findings or conclusions of law made by any of the Investigating Authorities as set forth in attachments B, C and D;

WHEREAS, AETNA has previously and voluntarily made restitution and payments totaling approximately \$9.5 million to its affected customers, and has implemented structural, management and policy changes intended to prevent the recurrence of the matters under investigation; and

WHEREAS, the Investigating Authorities have concluded that it is in the public interest to resolve these investigations in the manner set forth below;

NOW, THEREFORE, in consideration of the foregoing and of the terms hereinafter set forth, ACM and AFSI consent as follows:

A. Resolution Of These Investigations

The Investigating Authorities have found that it is appropriate and in the public interest to resolve their separate

investigations by entering settlements of the following civil and administrative actions to be filed against ACM and AFSI: (1) a civil action by the United States in the United States District Court for the District of Massachusetts pursuant to its jurisdiction and authority under 18 U.S.C. § 1345; (2) a civil action by the Commonwealth of Massachusetts in Suffolk Superior Court pursuant to its jurisdiction and authority under Mass. Gen. Laws ch. 93A; and (3) an Order Instituting Administrative Proceedings, Making Findings and Imposing Sanctions pursuant to the MASD's jurisdiction and authority under Mass. Gen. Laws ch. 110A, §§ 204 and 407A. Copies of the complaints and order are attached hereto as attachments B, C and D, respectively.

B. Settlement Of The Civil Actions And Consent Order

In settlement of these actions, and without admitting or denying any of the allegations or findings of fact made by any of the Investigating Authorities in such actions, ACM and AFSI agree to pay, simultaneously with the execution of this agreement:

1. further restitution in the amount of \$3.7 million, in the aggregate, to the Massachusetts systems with whom AETNA has entered civil settlements, the Rhode Island Investment Commission, and the Massachusetts State Treasurer's Office, to be distributed in accordance with the schedule included in attachment E, which reflects a pro rata distribution in accordance with customers' assets under management in AETNA's pension

and financial services products. (The schedule reflects each customer's pro rata share of the aggregate of the year-end balances of each customer in general accounts, pooled separate accounts and individual separate accounts of ACM and its affiliates for the years ending December 31, 1982, through December 31, 1990, inclusive, plus the quarter-end balance of each customer for the quarter ending June 30, 1991);

2. a civil assessment in the amount of \$500,000. to the United States Treasury; and
3. a civil assessment in the amount of \$500,000. to the Massachusetts General Fund.

ACM and AFSI further consent, without admitting or denying the facts, findings or conclusions set forth therein, and solely for the purposes of that proceeding, to the entry of an Order Instituting Administrative Proceedings, Making Findings and Imposing Sanctions pursuant to Mass. Gen. Laws ch. 110A, §§ 204 and 407A, in the form attached hereto as attachment D.

Under the MASD Consent Order, in addition to the payments referred to in paragraphs 1 and 3 above, ACM and AFSI will cease and desist from further violations of M.G.L. c. 110A § 101. ACM and AFSI will maintain a system of policies and procedures reasonably designed to prevent and detect any recurrence of violations described in that order. In addition, a

censure shall be recorded on the Broker-Dealer licenses of ACM and AFSI.

Simultaneously with the filing of the above civil actions, the USAO and the MASSAG will dismiss their actions with prejudice by filing notices of dismissal in the form attached hereto as attachments F and G.

C. Representations And Warranties Of Remedial Action Already Undertaken By AETNA

AETNA has provided to the Investigating Authorities a written description of the remedial steps it has taken since the matters under investigation first came to the attention of senior corporate management. Aetna has provided to the MASD a written description of its newly adopted third party payment policy and implementation directive for its pension and financial services strategic business unit and will provide to the MASD within sixty days of the issuance of the MASD consent order copies of all manuals and documents designed to implement corrective changes.

AETNA represents and warrants that it has already undertaken the following remedial action to address its relationship with Elio and the Massachusetts systems:

1. AETNA ordered an internal investigation;
2. AETNA voluntarily notified appropriate securities and insurance regulators of the facts;
3. AETNA cooperated with interested government agencies;
4. AETNA publicly acknowledged that AETNA's actions in the Elio relationship did not live up to its business standards;

5. AETNA voluntarily and promptly offered to refund without condition the commissions that the Massachusetts systems paid to WQM and Mongillo, plus interest, and ultimately paid a total of \$1.077 million. AETNA also reached civil settlements with the Massachusetts systems and the Rhode Island Investment Commission under which it paid a total of approximately \$8.46 million.
- a. Each retirement board that suffered losses received compensation for those losses;
 - b. Retirement boards that did not suffer losses received a pro rata share of the consulting payments made to entities affiliated with Elio. (Investors who would otherwise have received less than \$40,000 also received a \$10,000 incentive payment to enter into a timely settlement);
 - c. Investors in the congregate care fund (which was originally sold without a guaranteed rate of return) received a guarantee that they would suffer no loss of principal and would earn not less than 3.5% annually on the value of their investment as of July 1, 1992;
 - d. Each customer released any potential claims against AETNA;

6. AETNA disciplined employees for their conduct with respect to this matter; further, the employees most involved in the matter are no longer employed by AETNA.
7. AETNA adopted a new third-party payment policy which:
 - i. requires disclosure, in writing, of the identity and relationship to AETNA of all third parties (including agents, brokers and consultants) who are paid compensation directly or indirectly and who may influence the decision of the customer to purchase an AETNA product or service;
 - ii. is nationwide and applies to all AETNA products and services;
 - iii. is in addition to, and does not supersede, applicable legal requirements.

AETNA's Strategic Business Units that sell securities have promulgated disclosure compliance directives applicable specifically to their securities activities;

8. Organizational changes:
 - a. In 1989, AETNA split its Pension and Financial Services pension sales force from its group insurance sales force;
 - b. In 1990, AETNA moved its Pension & Financial Services sales activities to ACM, which had become a registered broker-dealer;
 - c. AETNA has, independently of this matter reorganized and enhanced its legal staff. Since mid-1992, four lawyers with extensive experience in securities law and compliance have joined AETNA's legal staff;

i. Reorganization eliminated separate Pension Legal Services function reporting to business people; such advice now provided by lawyers under the direction of AETNA's General Counsel;

d. AETNA has reorganized and strengthened its corporate compliance function independently of this matter;

i. Appointment of Chief Compliance Officer with responsibility for AETNA-wide compliance;

ii. Creation of Senior Compliance Officer positions for each of AETNA's major business groups.

D. Cooperation

AETNA agrees to cooperate fully with the Investigating Authorities. AETNA agrees to provide complete and truthful information to the Investigating Authorities. If testimony of, or information from, any present or former AETNA employees or representatives is requested, AETNA will use its best efforts to ensure that such individuals are available and will testify truthfully and completely before any grand jury, during any investigation by state authorities, and at any hearing and trial. AETNA will not attempt to protect any person or entity through false information or omission, or falsely to implicate any person or entity.

Upon reasonable request and notice and without cost to any law enforcement agency, AETNA agrees (i) to preserve and furnish to the Investigating Authorities all nonprivileged documents in its possession, custody or control that are relevant to the Investigating Authorities' inquiries, (ii) to perform and

provide the results of searches on its computerized data base of the full text of the documents already produced to the Investigating Authorities, and (iii) to provide all nonprivileged information available to it, other than documents constituting the work product of attorneys, with respect to the matters under investigation described in attachments B, C and D to this Offer of Settlement.

ACM and AFSI understand that if the Investigating Authorities accept this Offer of Settlement, that the Investigating Authorities agree to take no further actions against AETNA in connection with the matters under investigation except as set forth in the attached agreement with the USAO and the MASSAG.

ACM and AFSI hereby state that tender of this offer is a voluntary act on each corporation's part, that each corporation has the power to tender this offer and that the person signing on behalf of each corporation has the authority to tender this offer for this corporation.

Paul A. Ehrhardt
AETNA CAPITAL MANAGEMENT, INC.

BY: PAUL A. EHRHARDT

Its: PRESIDENT

Paul A. Ehrhardt
AETNA FINANCIAL SERVICES, INC.

BY: PAUL A. EHRHARDT

Its: PRESIDENT



SCOTT HARSHBARGER
ATTORNEY GENERAL

(617) 727-2200

The Commonwealth of Massachusetts A
Office of the Attorney General
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Boston, MA 02108-1698

19 August 1993

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One Post Office Square
Boston, MA 02109

RE: ACM and AFSI

Dear Gentlemen and Ms. Guttman:

This letter sets forth the agreement entered into between the Attorney General for the Commonwealth of Massachusetts (the "MASSAG"), the United States Attorney for the District of Massachusetts (the "U.S. Attorney"), and your clients AETNA Capital Management, Inc. ("ACM") and AETNA Financial Services, Inc. ("AFSI" and, with ACM, and its and their affiliates and subsidiaries, "AETNA").

1. Offer of Settlement; Duty to Cooperate;
Remedial Action

In keeping with their desire to resolve various investigations now pending before the MASSAG and U.S. Attorney, among others, ACM and AFSI have voluntarily executed an Offer of Settlement dated as of the 19th day of August, 1993 (the "Offer of Settlement"). In this Offer of Settlement, AETNA has agreed, inter alia, to cooperate fully with the MASSAG and U.S. Attorney, as more fully set

forth in section D thereof. In addition, AETNA has made certain representations and warranties as to remedial action already undertaken by it, as set forth in section C thereof.

2. Agreement not to Prosecute

In return for AETNA's full and truthful cooperation and in light of the representations and warranties contained in the Offer of Settlement, the U.S. Attorney and the MASSAG each agree not to prosecute AETNA for or bring any criminal or civil action or proceeding against AETNA, other than the civil actions filed or to be filed by the U.S. Attorney pursuant to 18 U.S.C. 1345 and by the MASSAG pursuant to G.L. c. 93A, respectively (as particularly set forth in the attachments to the Offer of Settlement), concerning any matter of which the U.S. Attorney or the MASSAG is currently aware relating to the subject matter of its investigation. The U.S. Attorney and the MASSAG each also agree not to use any information provided by AETNA pursuant to the Offer of Settlement against AETNA in any criminal case except in the event of a breach of its obligations under the Offer of Settlement as described below or in a prosecution for obstruction of justice or giving a false statement. Nothing herein is intended to affect or bind, nor shall it affect or bind, the United States Internal Revenue Service or Massachusetts Department of Revenue with respect to any liability ACM or AFSI has or may have with respect to claims arising under the Internal Revenue Code, Title 26 of the United States Code, or G.L. c. 58 through 65C, respectively.

Furthermore, AETNA fully understands that should it breach any provision of the Offer of Settlement or should any of its representations or warranties turn out to be intentionally and materially false, the U.S. Attorney and the MASSAG will have the right to criminally and civilly prosecute AETNA and use against AETNA at any trial, hearing, proceeding or for sentencing purposes, any statement made by AETNA, and any information, materials, documents or objects provided by AETNA to the U.S. Attorney and the MASSAG pursuant to the Offer of Settlement, without any limitation.

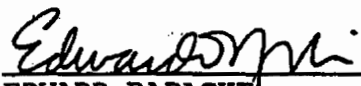
3. Entities Bound by this Agreement

This agreement is binding only upon the U.S. Attorney and the MASSAG. It shall not be deemed to be binding upon any other federal, state or local prosecutive, administrative or regulatory authorities or entities, nor

bind the MASSAG to the extent that the MASSAG is required by law to represent or appear on behalf of any such entity.

Sincerely,

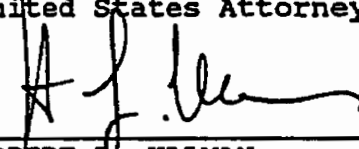
SCOTT HARSHBARGER
Attorney General

By: 
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Chief, Criminal Bureau

DAVID J. BURNS
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MICHAEL FABBRI
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A. JOHN PAPPALARDO
United States Attorney

By: 
ROBERT D. ULLMAN
Chief, Criminal Division

STEPHEN P. HEYMANN
Deputy Chief, Criminal
Division

ALEXANDRA LEAKE
Assistant U.S. Attorney

Acknowledgement of Agreement

ACM and AFSI hereby acknowledge that this letter of agreement fully sets forth their agreement with the Attorney General for the Commonwealth of Massachusetts and the United States Attorney for the District of Massachusetts. ACM and AFSI further stipulate and agree that there have been no additional promises or representations to them by any officials of the United

States or the Commonwealth of Massachusetts in connection with this matter.

AETNA FINANCIAL SERVICES, INC.

By: _____

AETNA CAPITAL MANAGEMENT, INC.

By: _____

We certify that this letter of agreement has been communicated to ACM and AFSI.

William H. Jeffress, Jr.
WILLIAM H. JEFFRESS, JR.
JULIA E. GUTTMAN

Bruce E. Coolidge
BRUCE E. COOLIDGE

Gary C. Crossen
GARY C. CROSSEN