

STATE OF ILLINOIS  
SECRETARY OF STATE  
SECURITIES DEPARTMENT

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IN THE MATTER OF: STEPHEN J. GREENBERG )  
\_\_\_\_\_)

FILE NO. 0500277

CONSENT ORDER OF DISMISSAL

**TO RESPONDENT:**

Stephen J. Greenberg  
(CRD#: 2324570)  
1368 E. 31 Street  
Brooklyn, New York 11210

C/o Pond Equities, Inc.  
4522 Fort Hamilton Parkway  
Brooklyn, New York 11219

C/o Eden L. Rohrer  
Attorney at Law  
Ellenoff Grossman & Schole  
370 Lexington Avenue  
New York, New York 10017

WHEREAS, Respondent on the 7th day of February 2006 executed a certain Stipulation to Enter Consent Order of Dismissal (the "Stipulation"), which hereby is incorporated by reference herein.

WHEREAS, by means of the Stipulation, Respondent has admitted to the jurisdiction of the Secretary of State and service of the Notice of Hearing of the Secretary of State, Securities Department, dated September 1, 2005, in this proceeding (the "Notice") and Respondent has consented to the entry of this Consent Order of Dismissal ("Consent Order").

WHEREAS, by means of the Stipulation, the Respondent acknowledged, without admitting or denying the truth thereof, that the following allegations contained in the Notice of Hearing shall be adopted as the Secretary of State's Findings of Fact:

1. That at all relevant times, the Respondent was registered with the Secretary of State as a salesperson in the State of Illinois pursuant to

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Section 8 of the Act. He also serves as his firm's Designated Illinois Principal.

2. That on June 23, 2005, NASD entered a Letter of Acceptance, Waiver and Consent (AWC) submitted by the Respondent regarding File No. CE4050001 which sanctioned the Respondent as follows:
  - a. fined \$10,000; and
  - b. suspension from associating with any member firm in all capacities for a period of twenty business (20) days.

3. That the AWC listed the following background information:

***Pond Equities, Inc.***

Pond has been a member of NASD since 1993. The firm has one office in Brookklyn, NY and currently employs approximately twenty registered representatives.

The Respondent entered the securities industry in 1993 as a General Securities Representative. He worked at two firms prior to joining Pond. He has been registered with Pond as a General Securities Representative, General Securities Principal and Registered Options Principal since January 1999, as a Uniform State Law Agent and Investment Advisor since March 1999, and as an Equity Trader.

4. That the AWC found:

- a. Between June and August 2002 ("the relevant period"), the Respondent and Pond sold approximately 2,962,964 shares of Freestar Technology, Inc. ("FSTI") stock (the "FSTI shares") for Client R to the public in approximately 38 trades. Although the FSTI shares were delivered to Pond in the form of unlegended certificates, these shares were not registered and no applicable exemption from registration applied.

Client R received the FSTI shares from Investor P, an affiliate of Client R. The FSTI shares had been held by FSTI's CEO and President, who pledged them as collateral to secure a financing agreement between Investor P and FSTI. When FSTI defaulted on its obligations under the financing agreement, the FSTI shares were distributed to Investor P.

By virtue of this conduct, Pond and the Respondent participated in the public sale of unregistered securities, thereby failing to comply

with Section 5 of the Securities Act of 1933 and violating NASD Conduct Rule 2110. **{Freestar Technology, Inc.'s Financing Agreement with Investor P}**

- b. On approximately March 25, 2002, Investor P entered into a financing agreement with FSTI (the "Financing Agreement"). FSTI traded on the Over the Counter Bulletin Board during the relevant period. Under the Financing Agreement, FSTI issued Investor P a \$200,000 Note and Investor P loaned FSTI \$200,000. The note was convertible into common stock starting on May 25, 2002.

FSTI was required to register the shares to be received by Investor P pursuant to the note by May 25, 2002 or it would default on its Financing Agreement with Investor P.

FSTI's President and CEO pledged certain restricted FSTI shares as collateral for the note. By virtue of his position as an officer of FSTI, the President and CEO was an affiliate of FSTI. **{FSTI Defaults on the Financing Agreement}**

- c. FSTI defaulted on the Financing Agreement by not filing a registration statement for the shares to be received by Investor P. On or before May 25, 2002, Investor P was therefore entitled to receive the FSTI shares. On approximately June 7, 2002, 2,962,964 shares were issued to Investor P in certificate form. Each certificate bore a restrictive legend.

By letter dated June 10, 2002, counsel for Investor P instructed the transfer agent to issue Investor P certificates representing free trading shares, on the mistaken assumption that the FSTI shares were registered pursuant to Form S-8. In fact, public filings revealed that the FSTI shares were not registered pursuant to Form S-8, and the shares could not be issued without a restrictive legend. Notwithstanding these facts, the transfer agent issued the FSTI shares to Investor P in two unlegended certificates dated June 11, 2002 – one for 1,144,783 shares, and the other for 1,818,181 shares. The unlegended certificates were delivered to Client R's account at Pond. **{Pond Equities, Acting through the Respondent, Execute Sales of the FSTI Shares in Violation of Section 5.}**

- d. **Investor P Transfers the FSTI shares to Client R and Client R sells Them to the Public**

On April 1, 2002, the Respondent opened an account at Pond for Client R. Client R, an investment entity, was a customer referred by an employee of Pond. During the relevant period, he was the registered representative assigned to Client R's account. On May 28, 2002, Client R purchased 260,000 shares of FSTI from the street and thereafter sold those shares in several transactions.

Based on Client R's representations that certificates would be delivered shortly, Pond received instructions to sell various increments of the 2,962,964 FSTI shares in Client R's account beginning on June 18, 2002. Pond began to sell FSTI shares seven days after the unlegended certificates had been issued to Investor P but before the shares were received in its account. In total, Pond and the Respondent sold nearly 1,500,000 FSTI shares before receiving the shares. On July 8, 2002, Client R delivered the FSTI shares to Pond together with a stock power transferring the shares from Investor P, its affiliate. By approximately August 14, 2002, the Respondent and Pond had sold to the public all 2,962,964 shares of FSTI Client R received from Investor P—approximately 6.5% of the FSTI common stock outstanding at the time. Client R realized approximately \$272,309 from these sales. The FSTI shares cleared DTC.

The FSTI shares were unregistered when they were received in Client R's account and at no time during the relevant period was there a registration statement filed for the shares. Moreover, no applicable exemption from registration applied. Therefore, the sales violated Section 5 of the Securities Act of 1933. **{Pond and the Respondent Fail to Conduct Due Diligence.}**

- e. In effecting sales of the FSTI shares to the public, Pond and the Respondent failed to comply with their obligations to exercise due care to prevent the sale of unregistered securities. Pond and the Respondent were confronted with several red flags that, in the aggregate, should have alerted them the FSTI shares were unregistered. Among other things, Client R was an investor that had opened a new account recently and deposited a large number of FSTI shares in two large blocks (each well in excess of 1 million shares); FSTI stock traded in the OTCBB market; and Client R began selling the shares before delivering them to Pond, sold all 2,962,964 shares in a two-month period, and the shares sold comprised approximately 6.5% of the public float of FSTI common stock

Despite these circumstances, and before executing sales of FSTI, Pond and the Respondent failed to conduct a reasonable

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investigation, which would have alerted them that the shares were unregistered and not exempt. **{Violations – Pond and the Respondent Violated Section 5.}**

- f. Section 5 of the Securities Act of 1933 states that it is unlawful to use the mails or interstate commerce to sell any security unless the security is registered or exempt from registration. A violation of section 5 does not require the knowing participation of the violator.

By virtue of the activities described above, the Respondent and Pond violated Section 5 of the Securities Act of 1933, and thereby violated NASD Conduct Rule 2110.

5. That Section 8.E(1)(j) of the Act provides, *inter alia*, that the registration of a salesperson may be revoked if the Secretary of State finds that such salesperson has been suspended by any self-regulatory organization registered under the Federal 1934 Act or the Federal 1974 Act arising from any fraudulent or deceptive act or a practice in violation of any rule, regulation or standard duly promulgated by the self-regulatory organization.
6. That NASD is a self-regulatory organization as specified in Section 8.E(1)(j) of the Act.
7. That by virtue of the foregoing, the Respondent's registration as a salesperson in the State of Illinois is subject to revocation pursuant to Section 8.E(1)(j) of the Act.

WHEREAS, by means of the Stipulation Respondent has acknowledged, without admitting or denying the averments, that the following shall be adopted as the Secretary of State's Conclusion of Law:

That by virtue of the foregoing, the Respondent's registration as a salesperson in the State of Illinois is subject to revocation pursuant to Section 8.E(1)(j) of the Act.

WHEREAS, by means of the Stipulation Respondent has acknowledged and agreed that he shall not serve in the capacity of Designated Illinois Principal for a period of two (2) years from the entry of this Consent Order.

WHEREAS, by means of the Stipulation Respondent has acknowledged and agreed that he shall be levied costs incurred during the investigation of this matter in the amount of One Thousand Five Hundred dollars (\$1,500.00). Said amount has been paid by certified or cashier's check, made payable to the Office of the Secretary of State, Investors Education Fund.

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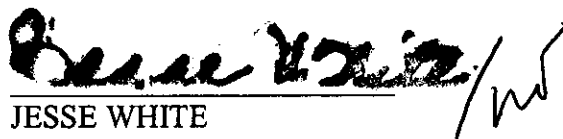
WHEREAS, by means of the Stipulation Respondent has acknowledged and agreed that he has submitted with the Stipulation a certified or cashier's check in the amount of One Thousand Five Hundred dollars (\$1,500.00) to cover costs incurred during the investigation of this matter. Said check has been made payable to the Office of the Secretary of State, Investors Education Fund.

WHEREAS, the Secretary of State, by and through his duly authorized representative, has determined that the matter related to the aforesaid formal hearing may be dismissed without further proceedings.

NOW THEREFORE IT SHALL BE AND IS HEREBY ORDERED THAT:

1. The Respondent shall not serve in the capacity of Designated Illinois Principal for a period of two (2) years from the entry of this Consent Order.
2. The Respondent is levied costs of investigation in this matter in the amount of One Thousand Five Hundred dollars (\$1,500.00), payable to the Office of the Secretary of State, Investors Education Fund, and on February 7, 2006 has submitted One Thousand Five Hundred dollars (\$1,500.00) in payment thereof.
3. The Notice of Hearing dated September 1, 2005 is dismissed.
4. The formal hearing scheduled on this matter is hereby dismissed without further proceedings.

ENTERED: This 16<sup>th</sup> day of February 2006.

  
JESSE WHITE  
Secretary of State  
State of Illinois