

UNITED STATES DISTRICT COURT
for the
FOR THE DISTRICT OF COULUMBIA

FILED ✓

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

STEFAN M. PALATIN,

Defendant.

JUL 31 2003

NANCY MAYER WHITTINGTON, CLERK
U.S. DISTRICT COURT

1:00CV01909(CKK)

**FINAL JUDGMENT OF PERMANENT INJUNCTION AND OFFICER AND
DIRECTOR BAR BY DEFAULT AGAINST DEFENDANT STEFAN M. PALATIN**

It appearing to this Court that plaintiff Securities and Exchange Commission (“SEC”), having filed and served upon defendant Stefan M. Palatin a summons and Complaint in this matter; the Clerk having entered Default against Palatin for failure to answer, plead, or otherwise defend this action within the time prescribed by law; Palatin having failed to answer, plead, or otherwise defend this action and having manifested no intention of defending this action; the Court having found that Palatin has defaulted in this action; and the Court, having reviewed the pleadings, records, and files in this action and been otherwise advised, hereby rules on the SEC’s motion for entry of a permanent injunction and officer and director bar by default against Palatin and renders final judgment of permanent injunction and an officer and director bar in this action as between the SEC and Palatin.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. This Court has personal jurisdiction of Palatin, and of the subject matter herein pursuant to Section 22(a) of the Securities Act of 1933 (“Securities Act”) [15U.S.C. § 77v(a)] and Sections 21(e) and 27 of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(e) and 78aa].

(N)

2. It appears from the Declaration of Service that was filed with the Clerk of the Court on January 6, 2003 that the Complaint, a valid summons, and other papers were duly served upon Palatin on October 14, 2002.

3. As of the date of plaintiff's Motion for Entry of Final Judgment of Permanent Injunction and Officer and Director Bar By Default, Palatin has failed to plead or otherwise defend in response to the SEC's Complaint as required by Rule 12 of the Federal Rules of Civil Procedure.

4. The Default, entered on January 28, 2003, against Palatin by the Clerk of this Court is approved and ratified.

5. It appears from the declaration of the SEC's counsel that Palatin is not an infant, incompetent person, or engaged in military service with the armed forces of the United States.

6. By virtue of his failure to plead or otherwise defend, Palatin is deemed to have admitted the allegations in the SEC's Complaint. Accordingly, the Court finds that:

a. Palatin knowingly or recklessly violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a), in the offer or sale of any security by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly, in that he (i) employed devices, schemes, and artifices to defraud; (ii) obtained money or property by means of any untrue statement of a material fact or any omission of a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (iii) engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon the purchaser;

b. Palatin knowingly or recklessly violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10-b5 thereunder [15 C.F.R. § 240.10b-5], in that he (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material facts and

omitted to state material facts necessary to make statements made, in light of the circumstances under which they were made, not misleading; and (iii) engaged in acts, practices, and courses of business which operated as a fraud in connection with the purchase and sale of securities;

c. Palatin violated Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 12b-20, 13a-1 and 13a-16 [17 C.F.R. §§ 240.12b-20, 13a-1, 13a-16], in that (i) the reports filed by The Cronos Group (“Cronos”) with the SEC were inaccurate; (ii) as an officer and director of Cronos, Palatin possessed and exercised the power to direct actual control over the management and policies of Cronos, thus, as control person under Section 20(a) of the Securities Exchange Act [15 U.S.C. § 78t(a)], he is liable for Cronos’ reporting violations by filing or causing to be filed with the SEC reports that did not accurately disclose the company’s operations; and (iii) he knowingly provided substantial assistance to the reporting violations engaged in by Cronos, thus, under Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], he is liable for aiding and abetting the company’s reporting violations, by filing or causing to be filed with the SEC reports that did not accurately disclose the company’s operations;

d. Palatin violated Sections 13(b)(2)(A) and 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A), (b)(5)] and Exchange Act Rules 13b2-1 and 13b2-2 [17 C.F.R. § 240.13b2-1, 13b2-2], in that (i) the books and records of Cronos did not accurately and fairly reflect the true facts concerning the transactions and disposition of the company’s assets; (ii) as an officer and director of Cronos, Palatin possessed and exercised the power to direct the actual management and policies of Cronos, thus, under Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)], he is liable for Cronos’ record-keeping violations engaged in by the company; (iii) Palatin provided substantial assistance to the record-keeping violations engaged in by Cronos, thus, under Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], Palatin is liable for aiding and abetting the record-keeping violations engaged in by the company; and (iv) Palatin

knowingly falsified and/or caused the books and records of Cronos to be falsified, and made false statements to and concealed material facts from Cronos' auditors, in connection with an audit of the financial statements of Cronos and the preparation and filing of reports required to be filed with the SEC;

e. Palatin violated Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)], in that (i) Cronos failed to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that preparation of financial statements was in conformity with generally accepted accounting principles, and to maintain accountability for its assets; (ii) as an officer and director of Cronos, Palatin possessed and exercised the power to direct the actual control over the management and policies of Cronos, thus as a control person of the company, under Section 20(a) of the Exchange Act [15 U.S.C. § 78t(u)] he is liable for the company's violations of the internal accounting controls requirements; (iii) Palatin knowingly provided substantial assistance to the violations of the internal accounting controls requirements engaged in by Cronos, thus, under Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)] he is liable for aiding and abetting the company's violations of the internal accounting controls requirements.

7. The Court does not find it necessary to conduct a hearing or order a conference prior to entering final judgment of permanent injunction and a permanent officer and director bar in this action or carrying its judgment to effect.

Accordingly,

I.

IT IS HEREBY ORDERED, ADJUDGED AND DECREED that plaintiff's Motion for Final Judgment of Permanent Injunction and Permanent Officer and Director Bar Against Defendant Stefan M. Palatin is GRANTED.

II.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that Defendant has engaged and, unless enjoined, will continue to engage in acts that constitute violations of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B) and 13(b)(5) of the Exchange Act [15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A) and 78m(b)(2)(B)], and Exchange Act Rules 10b-5, 12b-20, 13a-1, 13a-16, 13b2-1, and 13b2-2].

III.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that Defendant, Defendant's agents, servants, employees, attorneys, assigns, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)] in the offer or sale of any security by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, directly or indirectly:

- (a) to employ any device, scheme, or artifice to defraud;
- (b) to obtain money or property by means of any untrue statement of a material fact or any omission of a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;
or
- (c) to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.

IV.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that Defendant, Defendant's agents, servants, employees, attorneys, assigns, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 promulgated thereunder [17 C.F.R. § 240.10b-5], by using any means or instrumentality of interstate commerce, or of the mails, or of any facility of any national securities exchange, in connection with the purchase or sale of any security:

- (a) to employ a device, scheme, or artifice to defraud;
- (b) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or
- (c) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

V.

IT IS HEREBY FURTHER ORDERED, ADJUDGED, AND DECREED that, Defendant, Defendant's agents, servants, employees, attorneys, assigns, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from, directly or indirectly, controlling any person who violates Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 12b-20, 13a-1 and 13a-16 [17 C.F.R. §§ 240.12b-20, 13a-1, 13a-16], by filing or causing to be filed with the SEC reports which do not accurately disclose the results of

that person's operations, unless Defendant acts in good faith and does not directly or indirectly induce the act or acts constituting the violation.

VI.

IT IS HEREBY FURTHER ORDERED, ADJUDGED AND DECREED that Defendant, Defendant's agents, servants, employees, attorneys, assigns, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from, directly or indirectly, controlling any person who violates Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A), 78m(b)(2)(B)], by

- (a) failing to make and keep books, records, and accounts, which, in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of that person,
- (b) failing to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are executed in accordance with management's general or specific authorization and that preparation of financial statements is in conformity with generally accepted accounting principles,

unless Defendant acts in good faith and does not directly or indirectly induce the act or acts constituting the violation.

VII.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that Defendant, Defendant's agents, servants, employees, attorneys, assigns, and all persons in active concert or participation with them who receive actual notice of this Final Judgment by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Section

13(b)(5) of the Exchange Act [15 U.S.C. § 78(b)(5)] and Exchange Act Rules 13b2-1 and 13b2-2 [17 C.F.R. §§ 240.13b2-1, 240.13b2-2], by

- (a) knowingly falsifying and/or causing the books and records of an issuer described in Section 13(b)(2) of the Exchange Act to be falsified,
- (b) and/or making false statements to and concealing material facts from the auditors of an issuer described in Section 13(b)(2) of the Exchange Act.


VIII.

IT IS HEREBY FURTHER ORDERED, ADJUDGED, AND DECREED that, pursuant to Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)], Defendant is prohibited from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] or that is required to file reports pursuant to Section 15(d) of the Exchange Act [15 U.S.C. § 78o(d)].

IX.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that this Court shall retain jurisdiction of this action for all purposes, including the implementation and enforcement of this Final Judgment.

Dated: July 31, 2003.


COLLEEN KOLLAR-KOTELLY
United States District Judge