

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

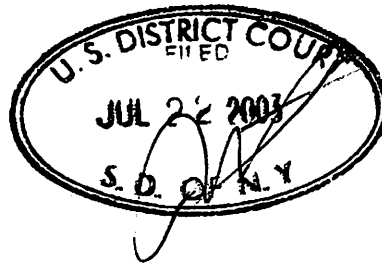
SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

v.

HGI, INC., MARK HANNA, BRIAN SCANLON,
STEPHEN PALUMBO, ANGELO JOHN BOSCO,
THOMAS FEDE, SHANE FERRAS, SCOTT
FOLLETT, JOSEPH TUOZZO, STEVEN
AREVALO, STEVEN HANNA, PAUL
KARKENNY, ROBERT PALUMBO AND
RAYMOND SAULON,

Defendant.



99 Civ. 3866 (DLC)

PARTIAL JUDGMENT
AND ORDER ON
CONSENT AGAINST
ROBERT PALUMBO

The Securities and Exchange Commission ("Commission") having commenced this action by filing a Complaint on May 27, 1999 and Defendant Robert Palumbo ("Defendant") having entered a general appearance; admitted to service of the summons and Complaint on Defendant; consented to the Court's jurisdiction over Defendant and the subject matter of this action; and consented to entry of this Partial Judgment and Order on Consent Against Robert Palumbo ("Partial Judgment"), without admitting or denying the allegations of the Complaint to the extent not inconsistent with this Partial Judgment; waived findings of fact and conclusions of law; and waived any right to appeal from this Partial Judgment:

I.

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED that Defendant, Defendant's agents, servants, employees, attorneys-in-fact, assigns, and all persons in active concert or

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participation with them who receive actual notice of this Partial Judgment by personal service or otherwise are permanently restrained and enjoined from violating, directly or indirectly, Section 10(b) of the Securities Exchange Act of 1934 (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:

- (a) to employ any 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,

in connection with the purchase or sale of any security.

II.

IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that Defendant, Defendant's agents, servants, employees, attorneys-in-fact, assigns, and all persons in active concert or participation with them who receive actual notice of this Partial Judgment by personal service or otherwise are permanently restrained and enjoined from violating Section 17(a) of the Securities Act of 1933 ("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:

- (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.

III.

IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that the amount of disgorgement of ill-gotten gains, plus prejudgment interest and civil penalties shall be determined at a later date by agreement of the parties, or failing that, by the Court.

IV.

IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that the Consent is incorporated herein with the same force and effect as if fully set forth herein, and that Defendant shall comply with all of the undertakings and agreements set forth therein.

V.

IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that this Court shall retain jurisdiction of this matter for the purposes of enforcing the terms of this Partial Judgment.

VI.

There being no just reason for delay, pursuant to Rule 54(b) of the Federal Rules of Civil Procedure, the Clerk is ordered to enter this Partial Judgment forthwith and without further notice.

CONSENT OF DEFENDANT ROBERT PALUMBO

1. Defendant Robert Palumbo ("Defendant") acknowledges having been served with the summons and Complaint in this action, enters a general appearance, and admits the Court's jurisdiction over Defendant and over the subject matter of this action.

2. Without admitting or denying the allegations of the Complaint (except as to personal and subject matter jurisdiction, which Defendant admits) to the extent not inconsistent with this Partial Judgment, Defendant hereby consents to the entry of the Partial Judgment and Order On Consent Against Robert Palumbo ("Partial Judgment") attached hereto and incorporated by reference herein.

3. Defendant waives the entry of findings of fact and conclusions of law pursuant to Rule 52 of the Federal Rules of Civil Procedure.

4. Defendant waives the right, if any, to appeal from the entry of the Partial Judgment.

5. Defendant enters into this Consent voluntarily and represents that no threats, offers, promises, or inducements of any kind have been made by the Commission or any member, officer, employee, agent, or representative of the Commission to induce Defendant to enter into this Consent.

6. Defendant agrees that this Consent shall be incorporated into the Partial Judgment with the same force and effect as if fully set forth therein.

7. Defendant will not oppose the enforcement of the Partial Judgment on the ground, if any exists, that it fails to comply with Rule 65(d) of the Federal Rules of Civil Procedure, and

hereby waives any objection based thereon.

8. Defendant waives service of the Partial Judgment and agrees that entry of the Partial Judgment and filing with the Clerk of the Court will constitute notice to Defendant of its terms and conditions. Defendant further agrees to provide counsel for the Commission, within thirty days after the Partial Judgment is filed with the Clerk of the Court, with an affidavit or declaration stating that Defendant has received and read a copy of the Partial Judgment.

9. Consistent with 17 C.F.R. 202.5(f), this Consent resolves the claims asserted against Defendant in this civil proceeding only. Defendant waives any claim of Double Jeopardy based upon the partial settlement of this proceeding, including the imposition of any remedy or civil penalty herein. Defendant further acknowledges that the Court's entry of a permanent injunction may have collateral consequences under federal or state law and the rules and regulations of self-regulatory organizations, licensing boards, and other regulatory organizations. Such collateral consequences include, but are not limited to, a statutory disqualification with respect to membership or participation in, or association with a member of, a self-regulatory organization. This statutory disqualification has consequences that are separate from any sanction imposed in an administrative proceeding.

10. Defendant understands and agrees to comply with the Commission's policy "not to permit a defendant or respondent to consent to a judgment or order that imposes a sanction while denying the allegation in the complaint or order for proceedings." 17 C.F.R. § 202.5. In compliance with this policy, Defendant agrees: (i) not to take any action or to make or permit to be made any public statement denying, directly or indirectly, any allegation of the Complaint or creating the impression that such claims of the Complaint are without factual basis; and (ii) that

upon the filing of this Consent, Defendant hereby withdraws any papers filed in this action to the extent that they deny any allegation in the Complaint. If Defendant breaches this agreement, the Commission may petition the Court to vacate the Partial Judgment and restore this action to its active docket. Nothing in this paragraph affects Defendant's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation in which the Commission is not a party.

11. Defendant hereby waives any rights under the Equal Access to Justice Act, the Small Business Regulatory Enforcement Fairness Act of 1996, or any other provision of law to pursue reimbursement of attorney's fees or other fees, expenses, or costs expended by Defendant to defend against this action. For these purposes, Defendant agrees that Defendant is not the prevailing party in this action since the parties have reached a good faith settlement.

12. Defendant agrees that the Commission may present the Partial Judgment to the Court for signature and entry without further notice.

13. Defendant agrees that this Court shall retain jurisdiction over this matter for the purpose of enforcing the terms of the Partial Judgment.

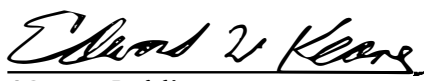
Dated: 6/20/03

By: 
Robert Palumbo

State of NY)
County of NY) ss.:

On this 20 day of June, 2003, before me personally came Robert Palumbo, to me know and know to me to be the person who executed the foregoing Offer of Settlement, and he acknowledged to me that he executed the same.

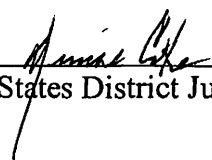
EDWARD W. KEANE
Notary Public, State of New York
No. 01KE8082629
Qualified in New York County
Commission Expires Nov. 11, 2006


Notary Public
Commission expires:


SO ORDERED:

EDWARD W. KEANE
Notary Public, State of New York
No. 01KE8082629
Qualified in New York County
Commission Expires Nov. 11, 2006

Date: July 21, 2003
New York, New York


United States District Judge

Approved as to form:


Steven E. Losquadro, Esq.
701 Route 25a
Rocky Point, NY 11778