

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES ACT OF 1933**

**Release No. 8626 / October 14, 2005**

**SECURITIES EXCHANGE ACT OF 1934**

**Release No. 52609 / October 14, 2005**

**ADMINISTRATIVE PROCEEDING**

**File No. 3-10437**

**In the Matter of**

**Hunter Adams,  
Jason A. Cohen,  
Steven M. Cohen,  
David Hirsch,  
Jonathan D. Winston,  
John J. Gremmo, III,  
James L. Bila,  
Christian W. Blake,  
Louis R. Facchini, Jr.,  
Roberto A. Mangiarano,  
Joseph P. Mannino,  
David M. Margules,  
James J. Pellizzi,  
David M. Pessa,  
Michael Pugliese,  
Christopher J. Russo,  
Howard I. Weinstein, and  
Robert J. Winston,**

**Respondents.**

**ORDER MAKING FINDINGS AND  
IMPOSING REMEDIAL SANCTIONS AND  
A CEASE-AND-DESIST ORDER PURSUANT  
TO SECTION 8A OF THE SECURITIES ACT  
OF 1933, AND SECTIONS 15(b)(6) AND 21C OF  
THE SECURITIES EXCHANGE ACT OF 1934,  
AS TO CHRISTOPHER J. RUSSO**

**I.**

On March 8, 2001, the Securities and Exchange Commission (“Commission”) instituted public administrative proceedings, pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), and Sections 15(b)(6) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Christopher J. Russo (“Russo” or “Respondent”).

## II.

Respondent has submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings contained in this order, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Section 8A of the Securities Act of 1933, and Sections 15(b)(6) and 21C of the Securities Exchange Act of 1934, as to Christopher J. Russo (“Order”), as set forth below.

## III.

On the basis of this Order and Respondent’s Offer, the Commission finds<sup>1</sup> that:

### **Respondent**

1. From September 1995 through April 1997, Russo was a registered representative of First United Equities Corporation (“First United”), a broker-dealer registered with the Commission. From April 1997 through August 1998, Russo was a registered representative at Lexington Capital, a broker-dealer registered with the Commission. Russo, age 38, is a resident of Ocean, New Jersey.

2. Russo participated in the public offerings of Ashton Technology Group (“Ashton”) and National Medical Financial Services (“NMFS”) stocks, which are penny stocks.

### **Other Relevant Entity**

3. First United, a Delaware corporation with its principal place of business in New York, New York, was registered with the Commission as a broker-dealer between November 1994 and April 1998, when the Commission accepted First United’s request for withdrawal of its broker-dealer registration. The corporation records of the State of Delaware indicate that First United’s corporate charter was voided March 1, 1999 for failure to pay franchise taxes in 1997 and 1998. While registered as a broker-dealer, First United maintained offices initially in Garden City, New York, and then in New York City.

### **Background**

4. Between approximately August 1995 and at least October 1997 (“the relevant period”), First United was operated and controlled by respondents Jason Cohen, Steven Cohen, Jonathan Winston, Hunter Adams, and David Hirsch (collectively, “First United

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<sup>1</sup> The findings herein are made pursuant to Russo’s Offer and are not binding on any other person or entity in this or any other proceeding.

Management”). In May 1996, First United was the principal underwriter on a firm commitment basis for an initial public offering (“IPO”) of common stock and warrants of Ashton. First United also participated in an August 1995 IPO of the common stock of NMFS. On or after the effective dates of the IPOs of NMFS and Ashton, First United Management caused large, undisclosed blocks of NMFS and Ashton securities to be sold or otherwise placed into First United’s inventory accounts or other accounts in the names of nominees and subject to arrangements that gave First United Management control over the sales of the securities and all or a portion of the proceeds.

5. During the relevant period, First United Management caused Russo and other First United registered representatives to use a variety of fraudulent sales practices to (i) inflate artificially the market price of, and demand for, NMFS and Ashton securities and (ii) sell those securities to First United customers at inflated prices. First United Management caused First United’s trader to pair, or “cross,” customer buy orders of NMFS and Ashton with sales of those securities at inflated prices from First United’s inventory accounts or other accounts controlled by First United Management.

6. During the relevant period, First United Management (i) instructed Russo and other registered representatives at First United to use high pressure sales tactics to induce investors to purchase NMFS and Ashton securities; (ii) distributed fraudulent scripts for use in soliciting buyers, overcoming customer objections, and dissuading investors from requesting prospectuses or other reports on NMFS or Ashton; and (iii) reiterated and emphasized that it was First United’s policy that, once a First United customer purchased NMFS or Ashton, that customer could not sell his holdings in either stock unless the customer agreed to buy the other stock or another purchaser for the stock could be found.

7. First United Management also caused Russo and other First United registered representatives to tell their customers that there would be no commission charge on purchasing NMFS or Ashton securities, even though Russo and other First United registered representatives knew that they were paid undisclosed commissions, as well as prizes or other bonuses based on their volume of NMFS and Ashton sales.

8. During the relevant period, as directed by First United Management, Russo and other First United registered representatives used a variety of deceptive and fraudulent sales practices to induce First United customers and other investors to purchase NMFS or Ashton securities at inflated prices. For example, Russo and other First United registered representatives made material misrepresentations and omissions concerning an investment in NMFS or Ashton. Russo and other First United registered representatives also misrepresented to customers that no First United client had ever lost money at the firm and First United would compensate its clients for any of their losses on investing in NMFS or Ashton.

9. During the relevant period, on many occasions, Russo and other First United registered representatives did not process a customer sell order for either NMFS or Ashton securities unless the First United trader could pair, or “cross,” the sell order with a purchase of the same amount of the other security by that customer or the purchase of the same amount of the same security by another customer.

10. During the relevant period, Russo and other First United registered representatives also effected unauthorized purchases of NMFS or Ashton securities in the accounts of existing First United customers, including on at least one occasion, in the account of a deceased customer. Moreover, once a customer received a confirmation of an unauthorized purchase of NMFS or Ashton securities, Russo and other First United registered representatives, at the direction of First United Management, frequently attempted to compel the customer to pay for the unauthorized purchase by persuading the customer that an investment in NMFS or Ashton would be profitable.

11. During the relevant period, Russo and others at First United profited from the sale of NMFS and Ashton securities at artificially inflated prices from First United's inventory accounts and other accounts that they controlled. The amount of compensation given to Russo and other First United registered representatives and the arrangements for the sale of NMFS or Ashton securities by First United Management were not disclosed to First United customers at the time of their purchases of NMFS or Ashton securities or thereafter.

12. Russo was indicted in the United States District Court for the Eastern District of New York on December 7, 2000, and was the subject of a superseding indictment filed on October 31, 2001 and a second superseding indictment filed on February 4, 2002, in U.S. v. Jonathan Winston, et al., 00 CR 1248 (NGG). On May 3, 2001, Russo pleaded guilty to counts I and II of the indictment. Count I charged Russo with conspiracy to commit securities, mail and wire fraud in connection with the fraudulent and deceptive sales practices used by Russo, among others, while at First United, with respect to the sale of NMFS and Ashton stocks, among others. Count II charged Russo with a substantive count of securities fraud and alleged that Russo had knowingly and willfully used and employed manipulative and deceptive devices in violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by making untrue statements of material facts in connection with the purchase and sale of Ashton stock to the public. In his plea allocution, Russo stated in relevant part: "While working at First United Equities and Lexington Capital, I, along with others, passed along false predictions to my clients, crossed Ashton stock or used my client to be a buyer of the stock when another client wanted to sell the same stock.... I failed to disclose these acts to my clients and by doing so I know I have violated the securities laws." Russo was sentenced on March 31, 2005, to a term of 3 years probation and ordered to pay restitution in the amount of \$2,005,476.25.<sup>2</sup>

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<sup>2</sup> On September 8, 2003 an Order on Motion for Partial Summary Disposition and Default Judgment (the "Order") was entered against Russo in this proceeding, based upon Russo's willful violation of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities. In the Order the Administrative Law Judge found that Russo had willfully violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5. Russo was ordered therein to cease and desist from committing or causing to be committed any violations, or future violations, of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and was barred from association with any broker or dealer.

13. Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] prohibits the use of “any manipulative or deceptive device or contrivance,” and Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)] and Rule 10b-5 under the Exchange Act [17 C.F.R. § 240.10b-5] prohibit the use of “any device, scheme, or artifice to defraud.” One of the “basic aim[s] of the anti-fraud provisions [of the federal securities laws] is to ‘prevent rigging of the market and to permit operation of the natural law of supply and demand.’” SEC v. First Jersey Secs., Inc., 101 F.3d 1450, 1466 (2d Cir. 1996) (quoting United States v. Stein, 456 F.2d 844, 850 (2d Cir. 1972)). “This prohibition with respect to manipulative activity is not confined to any particular type of manipulation, but . . . is necessarily designed to outlaw every device ‘used to persuade the public that activity in a security is the reflection of a genuine demand instead of a mirage.’” SEC v. Resch-Cassin & Co., Inc., 362 F. Supp. 964, 975 (S.D.N.Y. 1973) (citation omitted).

14. A broker’s baseless prediction of price increases, execution of unauthorized trades, failure to execute customer sell orders and receipt of undisclosed commissions, absent disclosure, constitutes material misrepresentations that violate the antifraud provisions of the federal securities laws. See, e.g., SEC v. Research Automation Corp., 585 F.2d 31, 35 n. 7 (2d Cir. 1978) (predictions of price rises, absent reasonable basis for prediction, actionable under the antifraud provisions); SEC v. Hasho, 784 F. Supp. 1059, 1106 (S.D.N.Y. 1992) (baseless price predictions and profit guarantees, receiving undisclosed commissions and general pattern of unauthorized transactions, often preceded by the customers’ refusals to purchase the securities recommended by defendants, constituted material misrepresentations in violation of the antifraud provisions of the securities laws); Bischoff v. G.K. Scott & Co., Inc., 687 F. Supp. 746, 749-51 (E.D.N.Y. 1986) (“specific promise to perform a particular act in the future while secretly intending not to perform may violate section 10(b) [of the Exchange Act] if the promise is part of the consideration for a sale of securities”), quoting Pross v. Katz, 784 F.2d 455, 457 (2d Cir. 1986).

15. As a result of the conduct described above, Russo willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities.

#### IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions specified in Respondent Russo’s Offer.

**Accordingly, it is hereby ORDERED that:**

A. Pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, Russo shall cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder;

B. Pursuant to Section 15(b)(6) of the Exchange Act, Russo be, and hereby is barred from association with any broker or dealer;

C. Any reapplication for association by Russo will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order; and that

D. Russo shall pay disgorgement of \$142,450.27 plus prejudgment interest, but this payment shall be deemed satisfied by the order of \$2,005,476.25 restitution imposed upon him on March 31, 2005, by the District Court in U.S. v. Jonathan Winston, et al., 00 CR 1248 (NGG).

E. Russo be, and hereby is, barred from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock.

By the Commission.

Jonathan G. Katz  
Secretary