

STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF :
PAUL S. SHECHTER, BRIAN SANDERS,
and ITRADEDIRECT.COM

File No. 0700550

TO THE RESPONDENTS:

PAUL S. SHECHTER
ITRADEDIRECT.COM CORP.
BRANCH OFFICE
701 MIDDLE COUNTRY RD.

PAUL S. SHECHTER
C/O BRIAN H. REIS, ESQ.
LAW OFFICE OF BRIAN H. REIS
80 BROAD ST., 33RD FLOOR
NEW YORK, N.Y. 10004

BRIAN SANDERS
ITRADEDIRECT.COM CORP.
BRANCH OFFICE
701 MIDDLE COUNTRY RD.
SELDEN, NY 11784

BRIAN SANDERS
C/O BRIAN H. REIS, ESQ.
LAW OFFICE OF BRIAN H. REIS
80 BROAD ST., 33RD FLOOR
NEW YORK, N.Y. 10004

ITRADEDIRECT.COM CORP.
1600 NW BOCA RATON BLVD
SUITES 22&23
BOCA RATON, FL 33432

ITRADEDIRECT.COM CORP.
C/O PETER R. SONDERBY, ESQ.
Ulmer & Berne, LLP
SUITE 1205
ONE NORTH FRANKLIN ST.
CHICAGO, IL 60606

CONSENT ORDER

WHEREAS, on May 8, 2009, a Notice of Hearing was Filed against Paul Shechter, Brian Sanders, Eric Arlt and ItradeDirect Com

WHEREAS, on January 13, 2010, this matter was Dismissed as to Respondent Eric Arlt

WHEREAS, Paul Shechter, Brian Sanders, and ITradeDirect com desire to resolve this matter and have agreed to certain undertakings described more fully below and in the attached Schedule

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WHEREAS, on the 5th and 11th days of January, 2010, to reach an amicable resolution of this matter and to avoid the costs and uncertainty of protracted litigation, Paul Shechter, Brian Sanders and ITradeDirect.com (collectively, "Respondents," hereinafter) executed copies of a certain Stipulation to Enter Consent Order (the "Stipulations"), which hereby are incorporated by reference herein

WHEREAS, by means of the Stipulations, Respondents have admitted to the jurisdiction of the Secretary of State in this matter and Respondents have consented to the entry of this Consent Order ("Consent Order") and understand and agree that that any breach of the agreements contained herein, including those contained in the attached Schedule A, as well as the terms and conditions put forth in the Release entered into between Investor and Respondents, shall then constitute an admission to the Findings of Fact and Conclusions of Law by all Respondents

WHEREAS, by means of the Stipulations, the Respondents acknowledge, without admitting or denying the truth thereof, that the following allegations shall be adopted as the Secretary of State's Findings of Fact:

- 1) Respondent Paul S. Shechter ("Shechter") (CRD# 2589423) is a resident of the State of New York, has his series 7 and 63 licensure, and has been a registered salesperson representative for ITradeDirect.com ("ITrade"), since June, 2005
- 2) Shechter works out of the registered ITrade branch office at 701 Middle Country Road, in Selden New York
- 3) Respondent Brian Sanders ("Sanders") (CRD# 2743309) is a resident of the State of New York, has his series 4, 7, 24, and 63 licensure, is a registered salesperson representative as well as the Chief Compliance Officer ("CCO") for ITrade, and is also a principal that is responsible for the supervision of Shechter.
- 4) ITrade (CRD# 18281) is a securities brokerage firm with its headquarters located in Boca Raton, Florida, and is registered as a securities dealer with the State of Illinois.
- 5) Investor is a resident of Illinois
- 6) In January 2007, Shechter made an unsolicited call to Investor to interest Investor in using ITrade's securities brokerage services
- 7) In late January 2007, Shechter mailed Investor a New Account Application ("Application") as well a document to open a margin account and an "Intent to Maintain an Active Account" letter
- 8) Based on information provided by Investor, Shechter had filled out the Application for Investor, stating Investor's income as \$900,000.00 per year, with

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a liquid net worth of \$750,000.00 and a total net worth of \$2,000,000.00. Based on that underlying information, Shechter also stated that Investor's investment objective was "speculation" and that his risk tolerance was "aggressive."

- 9) Investor, in his mid-thirties, married, and anticipating raising children, had investment experience primarily relating to mutual funds purchased through investment advisors.
- 10) On January 29, 2007, Investor, upon receiving the Application, contacted Shechter by e-mail and later spoke with him by telephone about the information on the Application.
- 11) During that conversation Shechter alleviated Investor's concerns by stating that most of ITrade clients are speculative and aggressive investors, but that Investor was not in a position to invest that aggressively, yet.
- 12) Investor, comforted by Shechter's explanation, signed the Application, the margin account agreement and the Intent to maintain an Active Account letter. Investor mailed the documents back to ITrade.
- 13) On or about February 28, 2007, Investor made an initial deposit of approximately \$13,500.00 into the account.
- 14) Investor made three more cash deposits into the account for a total cash contribution of approximately \$94,000. Investor would, as detailed more fully below, also transfer a significant amount of corporate stock that he owned into the ITrade account.
- 15) From February through July Shechter actively traded in the account with the consent of Investor, buying and selling stock of emerging market corporations. By July 2007, there had been approximately \$12,800.00 in losses in Investor's account.
- 16) On August 17, 2007, Investor spoke with Shechter about the account losses. Shechter explained that most of the losses occurred in the margin account, and then Shechter further discussed the mechanics of margin trading with Investor.
- 17) Investor contends that during the telephone conversation he instructed Shechter to cease buying on margin, and, later that day, Investor sent Shechter an e-mail instructing the same.
- 18) Through July and into early August, Shechter had also spoken with Investor about transferring to the ITrade account a significant amount of stock Investor had acquired through his employer's employee compensation plan (the "Oracle Stock").

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- 19) Initially, Investor did not want to sell his Oracle Stock, but listened to Shechter's plan regarding the transfer and subsequent management of the Oracle Stock
- 20) Shechter informed Investor that he believed that the fourth quarter of 2007 would be good for technology stock, so that the Oracle stock probably would not need to be sold, if at all, until after the fourth quarter, and even so, at that time he did not anticipate that more than one quarter of the Oracle stock would be recommended to be sold and the proceeds reinvested.
- 21) Investor, satisfied with this preliminary and tentative plan, authorized the transfer of his Oracle Stock to the Itrade account. On or about July 27, 2007, Investor's 9,613 shares of Oracle Stock were transferred to the Itrade Account
- 22) Investor e-mailed Shechter to inform him that the transfer had been authorized and to not touch the Oracle Stock until they had spoken.
- 23) On August 6, 2007 all of Investor's Oracle stock was sold for \$190,811.73
- 24) Following the liquidation of his Oracle stock Investor, sent Shechter an e-mail expressing his displeasure.
- 25) The proceeds of the Oracle sale were used to purchase and sell stock, almost exclusively, on margin, until Investor closed his account in October
- 26) Soon thereafter Investor closed his Trade Account, having suffered approximately \$199,861.95 in losses primarily from the margin trades made after the liquidation of the Oracle Stock.
- 27) Shechter derived commissions from the sale of the Oracle stock, and obtained additional commissions with the margin trading activities initiated with the proceeds of that sale
- 28) Shechter recommended, offered to sell and sold stock to Investor. Stock is a security as defined by Section 2.1 of the Illinois Securities Law of 1953, and Shechter's recommending, offering and selling stock constitutes the activities of a salesperson as defined by Sections 2.5a, 2.5 and 2.9 of the Illinois Securities Law of 1953 (815 ILCS 5/1 et seq.) (the "Act").
- 29) Section 12.F of the Act states that it shall be a violation of the provisions of the Act for any person to engage in any transaction, practice or course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof
- 30) ITrade's policies and procedures require that the principal for its representatives review all incoming correspondence, including e-mails, from a client, and any that raise concerns be addressed.

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- 31) The policies and procedures state that ITrade's CCO is responsible for ensuring that all registered personnel are fully aware of their obligations when handling a margin account and that appropriate surveillance activities are undertaken to ensure compliance, including initial and annual delivery of margin disclosure statements
- 32) The policies and procedures also state that ITrade's designated supervising principals are responsible for overseeing, on an ongoing basis, all margin account transactions being dealt with by the individuals under their direct supervision and for ensuring that all appropriate compliance and disclosure requirements are adhered to
- 33) Furthermore, the policies and procedures require "Clear Consent" to be obtained from the customer before opening a margin account
- 34) Investor sent several e-mails to Shechter's ITrade e-mail address, including one before opening the ITrade account, that, had they been reviewed, could have raised concerns that could have been addressed by Sanders and ITrade, including:
 - a A January 29, 2007 e-mail relating to the information Shechter placed on Investor's Application,
 - b The July 27, 2007, e-mail regarding Investor's instruction for Shechter with respect to the sale of the Oracle stock,
 - c An August 17, 2007, e-mail instructing Shechter to cease margin trading and also questioning Shechter's sale of the Oracle stock
- 35) Sanders reviewed, but did not sufficiently investigate Investor's e-mail correspondence to Shechter, so that he would be able to address investor's concerns about his account
- 36) *I therefore, Sanders did not ensure that there was clear subjective consent from Investor to trade on margin*
- 37) Section 8 E (1)(e)(iv) of the Act states in pertinent part that the registration of a dealer, salesperson, investment advisor or investment advisor representative may be denied, suspended or revoked if it is found that the dealer, salesperson, investment advisor, investment advisor representative, or any principal officer, director, partner, member or manager, "has failed to maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of its salespersons that are reasonable designed to achieve compliance with applicable securities laws and regulations "

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WHEREAS, by means of the Stipulations Respondents have acknowledged, without admitting or denying the averments, that the following shall be adopted as the Secretary of State's Conclusions of Law

- 1) Paul Shechter violated Section 12 F of the Illinois Securities Law of 1953 by continuing to trade on margin when instructed not to do so, and by ignoring Investor's instructions to not sell Investor's Oracle Stock.
- 2) Brian Sanders and ITradeDirect.com's registrations as a salesperson of securities and as a securities dealer in the State of Illinois are subject to revocation procedures pursuant to Section 8 E (1)(c)(i) of the Act for failing to maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of Paul Shechter, in particular.
 - a Not sufficiently investigating Investor's e-mail correspondence to Shechter so that he would be able to address the concerns raised by Investor in those e-mails, and
 - b. Failing to ensure that Investor had given clear subjective consent to trade on margin

WHEREAS, Respondents Shechter, Sanders and ITrade have agreed to pay Investor restitution, totaling One Hundred and Fifty Thousand Dollars (\$150,000.00), consistent with the terms agreed upon with the Investor, in exchange for a full and unconditional release from Investor (the "Release")

WHEREAS, Respondent ITradeDirect Com has agreed to certain undertakings, including retaining an additional, qualified, individual to maintain and enforce written procedures and supervise the types of investment-related business in which it and its representatives engage as more fully detailed in Schedule A, attached

WHEREAS, Respondents ITradeDirect Com, Brian Sanders, and Paul Shechter have agreed that Paul Shechter shall be under certain heightened supervision for a period not less than twelve months, as more fully detailed in Schedule A

WHEREAS, Respondents ITradeDirect, Brian Sanders, and Paul Shechter acknowledge and agree that any breach of the agreements contained herein, including those contained in the attached Schedule A, as well as the terms and conditions put forth in the Release entered into between Investor and Respondents, shall constitute an admission to the Findings of Fact and Conclusions of Law by all Respondents

WHEREAS the Secretary of State, by and through his duly authorized representative, has determined that this matter may be dismissed without further proceedings

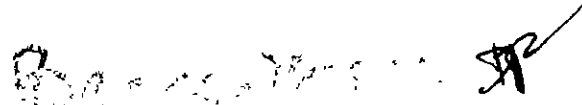
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NOW THEREFORE IT SHALL BE AND IS HEREBY ORDERED THAT

- 1) Respondents Paul Shechter, Brian Sanders and ITradeDirect shall pay Investor restitution totaling One Hundred and Fifty Thousand Dollars (\$150,000.00) consistent with the terms agreed upon with the Investor, in exchange for a full and unconditional release from Investor.
- 2) Respondent ITradeDirect Com shall retain an individual to act in a supervisory capacity to maintain and enforce written procedures and supervise the types of business in which it engages and to supervise the activities of its representatives, pursuant to the terms and conditions set forth in Schedule A;
- 3) Respondent Paul Shechter shall be under certain heightened supervision for a period of not less than twelve months, pursuant to the terms and conditions set forth in Schedule A, and
- 4) The formal hearing, as it pertains to Respondents Paul Shechter, Brian Sanders, and ITradeDirect Com scheduled on this matter is hereby dismissed without further proceedings

ENTERED: This 13th day of January, 2010



JESSE WHITE
Secretary of State
State of Illinois

NOTICE: Failure to comply with the terms of this Order shall be a violation of Section 12.D of the ACT. Any person or entity that fails to comply with the terms of this Order of the Secretary of State, having knowledge of the existence of this Order, shall be guilty of a Class 4 felony for each offense.

This is a final order subject to administrative review pursuant to the Administrative Review Law [735 ILCS 5/3-101 et seq.] and the Rules and Regulations of the Act (14 Ill. Admin. Code, Ch. 1 Sec. 130.1123). Any action for judicial review must be commenced within thirty-five (35) days from the date a copy of this Order is served upon the party seeking review.

Attorney for the Department
Jason Chronopoulos
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Schedule A

- 1 Within six months of the entry of the Consent Order Respondent ITradeDirect Com. Inc (ITrade"), shall designate an individual (who may be a current employee) with no less than five years industry experience in the offer and sale of securities and no less than two years experience in a supervisory position for an investment advisory, or securities brokerage firm, and with a clear regulatory record at the time of designation, to act as a principal, in addition to the current supervisory employee(s), of ITrade's representatives
 - a This supervisory position shall enforce ITrade's compliance policies and procedures as they pertain to accounts held by Illinois residents
 - b The individual occupying this position is a full-time supervisor for ITrade
 - c ITrade shall file with the Illinois Securities Department (the "Department") a certified statement that identifies the individual retained for this position, the individual's contact information, and is accompanied by that individual's resume
 - d If, at six months of entry of the Consent Order, the designation of this principal is hampered or made unfeasible due to a change in material factor(s), including but not limited to, ITrade's finances or retention of registered representatives, ITrade may petition the Department for a modification of this undertaking. The petition shall include a statement of why this undertaking is hampered or no longer feasible, and shall be supported by relevant documentation. The petition shall also provide a proposed alternative to this Undertaking. The petition and the supporting documentation must be signed and notarized, attesting to the truth of the petition and the supporting documentation, by an ITrade executive or legal representative with the authority to act on behalf of ITrade.
- 2 ITrade shall provide to potential customers, as a cover page, a disclosure statement regarding the risks associated with maintaining an actively traded account involving "high-risk" securities and state that the potential customer must read all accompanying materials prior to signing the relevant documents and opening such an account
- 3 Respondent Paul Shechter ("Shechter") shall be under certain heightened supervision for a period of twelve months from the entry of the Consent Order
 - a A Principal shall review a minimum of fifteen-percent (15%) of the prior month's customer accounts that 1) had a turn-over ratio of fifty-percent (50%) or greater during that month; and 2) from which Shechter received any commission (the "Sales Review").
 - b ITrade, or the relevant brokerage or investment advisory firm, shall maintain records of all such Sales Reviews. Such records shall include, at a minimum, who

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conducted each Sales Review, the date of such review, and an indication whether the proposed transaction was approved

- c. ITrade, or the relevant brokerage or investment advisory firm, shall file a semi-annual statement with the Department, on or before March 15th and September 15th of 2010. The statement shall detail the Sales Reviews. The statement shall provide, at a minimum
 - i. The account number in which the transaction was executed,
 - ii. The investment sold;
 - iii. The amount of the sale,
 - iv. Class of shares sold, if applicable, and,
 - v. The amount of the commission paid to Shechter
 - d. Within ten (10) days of receiving any customer complaints from an Illinois resident, either orally or in writing, against Shechter, ITrade, or the relevant brokerage or investment advisory firm, shall file with the Department a statement detailing the nature of the complaint, the name of the party complaining, the address and phone number of the party complaining, and any action taken to resolve the complaint. If the complaint was in writing, a copy of the complaint shall be filed with the statement.
 - e. Should Shechter become a representative for any brokerage or investment advisory firm within twelve months of the entry of the Consent Order, the terms and conditions of his heightened supervision must be acknowledged and agreed to by the new firm by filing a certified statement with the Illinois Securities Department prior to the commencement of Shechter's representation with that firm
4. Within twelve (12) months of the entry of the Consent Order Respondents Shechter and Brian Sanders ("Sanders") each must complete ten (10) hours of continuing securities industry education in addition to their current requirements. The additional ten (10) hours of continuing education must focus on compliance and ethics. Respondents, including ITrade, shall file a certified statement of completion of this undertaking, including providing certifications of the courses taken, in addition to completion of Shechter and Sander's existing requirements
 5. ITrade acknowledges and agrees that the failure to comply with any of the obligations set forth herein shall constitute an admission to the Allegations of Fact and Conclusions of Law contained in the Consent Order and shall also constitute a violation of section 8 E(1)(e)(iv) of the Illinois Securities Law of 1953, as amended.