

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

_____))
IN THE MATTER OF: THE SHERMAN GROUP, INC.)
_____))

FILE NO. 0700022

CONSENT ORDER OF CENSURE

TO THE RESPONDENT: The Shemano Group, Inc. (B/D#: 35528)
601 California Street
Suite 1150
San Francisco, California 94108

WHEREAS, Respondent on the 5th day of April 2007 executed a certain Stipulation To Enter Consent Order Of Censure ("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 February 1, 2007 in this proceeding (the "Notice") and Respondent has consented to the entry of this Consent Order of Censure ("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 dealer in the State of Illinois pursuant to Section 8 of the Act.
2. That on June 12, 2006 NASD entered a Letter Of Acceptance, Waiver And Consent (AWC) submitted by the Respondent regarding File No. 2005000172701, which sanctioned the Respondent as follows:
 - a Fined, joint and severally with Gary Shemano \$425,000;
 - b Permanently barred from publishing research reports, as that term is defined under NASD Conduct Rule 2711(a); and

- c Retain an independent consultant to perform various duties and carry out specific functions.
3. Background: The Respondent became an NASD member in January 1994 and its registration remains in effect. Gary Shemano established The Respondent where he is currently registered as a general securities principal. Gary Shemano is a 100% owner of the Respondent and has served as its Chairman since 1994.

**Sales of DDSU Shares in Violation
of The Respondent's Supervisory Procedures**

4. That the AWC found
- a. On April 24, 2003, Gary Shemano, on behalf of the Respondent, signed an investment banking agreement to raise funds for DDSU Technologies, Inc., a publicly traded company ("DDSU"). At the same time, Gary Shemano entered into an agreement with a shareholder of DDSU to receive 50,000 unrestricted shares and 100,000 restricted shares of DDSU. The banking agreement made no reference to the receipt of these shares and the firm's compliance department was not notified of their receipt.
 - b. After signing the banking agreement, the Respondent began soliciting clients to invest in a series of PIPE transactions with DDSU, and the firm began preparing a research report on the company. The Respondent's supervisory procedures required that its compliance department be notified upon the signing of a banking agreement and upon the initiation of research coverage on a company. The procedures further required that DDSU be placed on a restricted trading list and that the firm's compliance department monitor and approve any employee trading in DDSU. Contrary to these procedures, DDSU was not placed on the restricted trading list.
 - c. Between approximately May 22, 2003 and July 30, 2003, Gary Shemano sold, 32,500 DDSU shares out of the 50,000 unrestricted shares received from the DDSU shareholder. Gary Shemano received approximately \$198,000 in proceeds from the sale of these shares. The shares were sold while the Respondent (and Gary Shemano) were reviewing drafts of a pending research report on DDSU, investigating allegations of misconduct by DDSU management, and soliciting clients to invest in DDSU's PIPE offerings. The Respondent failed to prohibit or detect these sales in contravention of its procedures because the firm's compliance department did not monitor employee-trading activity in DDSU.

- d. As a result of the foregoing, the Respondent (along with Gary Shemano) failed to establish, maintain and enforce a system of supervision and written supervisory procedures reasonably designed to prevent the misuse of material, nonpublic information and to achieve compliance with applicable securities laws and regulations and NASD rules.
- e. The conduct described above constitutes violations of Section 15(f) of the Securities Exchange Act of 1934 and NASD Conduct Rules 3010 and 2110.

Payments to a Barred Individual

- f. From at least May 2003 through February 2004, the Respondent made payments to an individual that the Respondent (along with Gary Shemano) knew *was* statutorily disqualified from association with any NASD member (the "Barred Consultant") for consulting services relating to the issuance of research reports and investment banking activities. The statutory bar resulted from the Barred Consultant's criminal conviction for lying to the SEC during an investigation. The Barred Consultant was paid for, among other things, drafting a business plan on DDSU, preparing two research reports and a press release on DDSU, and referring investors to the Respondent to participate in DDSU's PIPE transactions. The Respondent also failed to report its association with this disqualified individual to NASD.
- g. The conduct described above constitutes violations of Article III, Section 3 of NASD Bylaws, IM-8310 and NASD Conduct Rules 3070 and 2110.

DDSU Research Reports

- h. In May 2003, a research analyst at the Respondent ("Research Analyst") began drafting a research report on DDSU. The Research Analyst prepared a draft of the report, which included a series of disclosures identifying material risks associated with an investment in DDSU. He provided a copy of the report to Gary Shemano and then met with him to discuss the content of the report.
- i. In June 2003, the Research Analyst assigned to DDSU resigned his position with the firm. The Respondent then paid the Barred Consultant to complete the report. Prior to completion of the report, the material risk disclosures contained in the Research Analyst's original report were deleted. On July 28, 2003 the Respondent published the DDSU report written by the Barred Consultant. The final report failed to include the risk factors identified in the

Research Analyst's draft report. It also failed to disclose that: the author of the report had been barred from the securities industry for lying to the SEC; that Gary Shemano had received 50,000 unrestricted shares of DDSU stock from a DDSU shareholder and had sold 32,500 of those shares in the months preceding the report; and that the revenue projections contained in the report were prepared by DDSU's management.

- j. On November 18, 2003, the Respondent issued a second research report on DDSU written by the Barred Consultant that again failed to disclose the material facts described above.
 - k. The conduct described above constitutes violations of NASD Conduct Rules 2210 and 2110.
 - l. The Respondent (along with Gary Shemano) failed to reasonably supervise the firm's Research Department, Investment Banking Department, and the Barred Consultant in connection with their activities relating to and the issuance of the research reports on DDSU.
 - m. The conduct described above constitutes violations of NASD Conduct Rules 3010 and 2110.
4. That Section 8.E(1)(j) of the Act provides, inter alia, that the registration of a dealer may be revoked if the Secretary of State finds that such dealer has had membership in or association with any self-regulatory organization registered under the Federal 1934 Act or the Federal 1974 Act suspended, revoked, refused, expelled, cancelled, barred, limited in any capacity, or otherwise adversely affected in a similar manner arising from any fraudulent, deceptive act or a practice in violation of any rule, regulation or standard duly promulgated by the self-regulatory organization.
5. That NASD is a self-regulatory organization as specified in 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:

The Respondent's registration as a dealer 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 they shall be censured.

Consent Order of Censure

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WHEREAS, by means of the Stipulation Respondent has acknowledged and agreed that they shall be levied costs incurred during the investigation of this matter in the amount of Three Thousand dollars (\$3,000.00). Said amount is to be paid by certified or cashier's check, made payable to the Office of the Secretary of State, Securities Audit and Enforcement Fund.

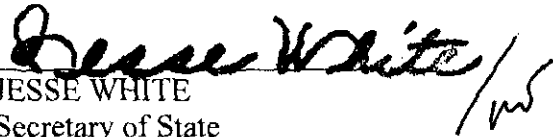
WHEREAS, by means of the Stipulation Respondent has acknowledged and agreed that they have submitted with the Stipulation a certified or cashier's check in the amount of Three Thousand dollars (\$3,000.00) to cover costs incurred during the investigation of this matter. Said check has been made payable to the Office of the Secretary of State, Securities Audit and Enforcement 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:

1. The Respondent shall be censured.
2. The Respondent is levied costs of investigation in this matter in the amount of Three Thousand dollars (\$3,000.00), payable to the Office of the Secretary of State, Securities Audit and Enforcement Fund, and on April 5, 2007 has submitted Three Thousand dollars (\$3,000.00) in payment thereof.
3. The formal hearing scheduled on this matter is hereby dismissed without further proceedings.

ENTERED This 13th day of April 2007.


JESSE WHITE
Secretary of State
State of Illinois

NOTICE: Failure to comply with the terms of this Order shall be a violation of Section 12.1) of the Illinois Securities Law of 1953 [815 ELCS 5] (the Act). Any person or entity who 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.

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 Illinois Securities Act, {14 Ill. Admin. Code Ch. 1, Section 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.