STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF: CRAIG L. JOSEPHBERG	)	FILE NO. 0600490

NOTICE OF HEARING

TO THE RESPONDENT: Craig L. Josephberg
(CRD#: 2709288)
355 East 72 Street Apartment Number
17B New York, New York 10021

C/o Maxim Group, LLC
405 Lexington Avenue
New York, New York 10174

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act") and 14 Ill. Adm. Code 130, Subpart K, a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602, on the 2nd day of May, 2007 at the hour of 10:00 a.m. or as soon as possible thereafter, before Esq., or such other duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order shall be entered revoking Craig L. Josephberg's (the "Respondent") registration as a salesperson in the State of Illinois and/or granting such other relief as may be authorized under the Act including but not limited to the imposition of a monetary fine in the maximum amount pursuant to Section 11.E(4) of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for such proposed action are as follows:

1. That at all relevant times, the Respondent was registered with the Secretary of State as a salesperson in the State of Illinois pursuant to Section 8 of the Act.

2. That on July 18, 2006 NASD entered a Letter Of Acceptance, Waiver And Consent (AWC) submitted by the Respondent regarding File No. EAF040037, which sanctioned the Respondent as follows:

a. fined $15,000; and

b. suspension from association with any member firm in any capacity for 35 days.

3. That the AWC found:

Summary

Between March 2003 and September 2003, the respondent opened approximately twenty-eight accounts for seven hedge fund clients at Paulson (his then employing dealer) for the purpose of market-timing mutual funds. During this time, the Respondent received increasing numbers of account blocks and trade rejects from mutual funds that were monitoring his clients' market-timing activities for excessive market timing. In an effort to hide from mutual funds that monitored for brokers that engaged in excessive market timing, the Respondent requested new broker codes for his market-timing account. Paulson's President was aware of the Respondent's market-timing activities and on July 31, 2003 granted his requests for new broker codes. Thereafter the Respondent executed approximately twenty-four trades with the new broker codes in mutual funds that had already blocked a trade he had attempted to execute with his pre-existing broker codes. As a result, the Respondent was able to trade for clients in funds that may have been monitoring for, and may have rejected trades associated with, his pre-existing broker codes. These trades generated approximately $34,000 in profits for the Respondent's clients. In addition, the Respondent processed sixteen trades in a mutual fund after that fund had blocked his broker code from placing any further trades. These trades generated approximately $86,000 in profits for the Respondent's clients. By requesting and then using additional broker codes for the purpose of hiding his identity from mutual funds, and by trading in a mutual fund with a broker code that the mutual fund had blocked the Respondent violated NASD Rule 2110, which requires registered persons to adhere to high standards of commercial honor and just and equitable principles of trade.

Background

Unlike securities listed on an exchange, the NAV of most mutual funds currently is calculated only once per day, based upon closing prices at 4:00 p.m. Eastern Time. This regimen for determining NAV provides market timers the opportunity to engage in arbitrage based on market information not reflected in that day's net asset value. To do this, market timers typically buy and will sell shares in Mutual funds on a short - term basis, realizing quick gains and then retreating to the previous market position. Market timing is not illegal per se. It can harm mutual fund

shareholders, however, because it can dilute the value of their shares, by, among other things, removing profits that would otherwise be shared by all the shareholders, requiring the fund to keep a larger percentage of highly liquid assets to cover redemptions, or by increasing the transaction costs for the fund. Long-term fund investors may ultimately bear the burden of paying these costs. In addition, trading profits obtained by market timers can result in losses to long-term mutual fund shareholders.

Many mutual fund companies monitor trading activity for market timing and attempt to enforce restrictions and limitations on market timing through written and oral communications, or notices, blocking or rejecting trades. The notices vary from reminders as to the fund company's market timing policies and procedures, to warnings that an account is permitted one more transaction, to absolute restrictions from effecting additional transactions in the securities of that fund company ("block notices").

At times, market timers employ a number of strategies to attempt to avoid detection and continue market timing after a mutual fund has attempted to prevent future trading activity. These strategies include using different names and broker code numbers. Market timers undertake these efforts in an attempt to gain more market timing capacity, or increased access to market timing opportunities in any given fund company.

The Respondent Engaged In Deceptive Market Timing.

In January 2003, the Respondent opened the first market-timing account for a hedge fund client at Paulson. The Respondent's market-timing business grew until he had a total of twenty-eight market-timing accounts, managed by seven hedge funds. These accounts were opened for the express purpose of market timing and they managed a total of approximately $39 million in assets in the Respondent's accounts. In total, the Respondent processed over 1,300 trades in over forty fund families for these clients.

Between March and September 2003, mutual fund companies rejected an increasing number of trades from the Respondent's accounts for excessive market timing. In many of these trade rejects, the mutual fund companies warned Paulson that market timing was detrimental both to the management of the fund and long-term shareholders and was not a proper investment purpose. In addition, some of the trade rejects sent by the mutual funds identified the Respondent's broker code and the broker name that was assigned to the account. By May 1, 2003, mutual funds rejected six trades submitted by the Respondent for excessive market timing.

In May 2003, the Respondent approached a hedge-fund client about ways to increase his market -timing business with the client. He took notes based upon his conversations with the client. His client told the Respondent that a way to "prolong the relationship" between the Respondent and the client was to "hide" broker codes.
Shortly after his conversations with his client about ways to increase its business with him, the Respondent requested new broker codes from the President of Paulson. The Respondent requested the new broker codes in part to hide from mutual funds that monitored for brokers that engaged in excessive market timing. In the meantime, the Respondent's market-timing business increased, as did the communications from mutual funds restricting the market timing of his clients.

On July 31, 2003, Paulson's President granted the Respondent's request for new broker codes. The Respondent was then provided a new broker code that he shared with a junior broker, who performed administrative duties and received a small portion of commissions generated with trades executed under the new broker code. In addition, the Respondent was also assigned a new broker name for these codes -GIARCEOJ- that consisted of the Respondent's first name, combined with the first name of a junior broker, and then spelled backwards.

The Respondent made approximately twenty-four trades with these new joint broker codes and broker names in mutual funds that had already blocked a trade processed by the Respondent with his pre-existing broker codes and broker names. As a result, the Respondent was able to trade in funds that may have been monitoring for, and may have rejected trades associated with, his old broker code. These trades generated approximately $34,000 in profits to his clients. By requesting and using additional broker codes for the purpose of hiding his identity from mutual funds, the Respondent violated NASD Rule 2110, which requires registered persons to adhere to high standards of commercial honor and just and equitable principles of trade.

In addition, one mutual fund company rejected a trade placed by the Respondent for market-timing activity and specified that it would "no longer allow trades placed" by his broker code. This block was sent by wire to Paulson's home office in Portland, which then forwarded the block to the Park Avenue branch. Contrary to the block notice, the Respondent continued to use the code to trade in the mutual fund. He placed sixteen more trades in the mutual fund company for a client, earning that client approximately $86,000 in profits, after the fund had sent the notice blocking the Respondent's code from placing any more trades in the mutual fund.

4. That Section 8.E(1)(j) of the Act provides, inter alia, that the registration of a salesperson may be revoked if the Secretary of State finds that such salesperson has been suspended by any self-regulatory organization registered under the Federal 1934 Act or the Federal 1974 Act arising from any fraudulent or 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(l)(j) of the Act.

6. The Respondent's registration as a salesperson in the State of Illinois is subject to revocation pursuant to Section 8.E(1)(j) of the Act.

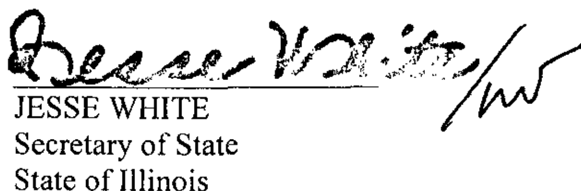
You are further notified that you are required pursuant to Section 130.1104of the Rules and Regulations (14 ILL. Adm. Code 130)(the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

A copy of the Rules, promulgated under the Act and pertaining to hearings held by the Office of the Secretary of State, Securities Department, is included with this Notice.

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated: This 15th day of March 2007



JESSE WHITE
Secretary of State
State of Illinois

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