

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

IN THE MATTER OF: STEVEN R. JALOZA

FILE NO. 0300858

NOTICE OF HEARING

TO THE RESPONDENT: Steven R. Jaloza
(CRD #: 1320831)
215 Saddle Lane
Muttontown, New York 11791

c/o Gunnallen Financial, Inc.
1715 N. Westshore Boulevard
7th Floor
Tampa, Florida 33607-3926

You are hereby notified that, pursuant to Section 11.F of the Illinois Securities Law of 1953 (815 ILCS 5 et. seq.) (the "Act") and 14 Ill. Adm. Code 130, Subpart K (the "Rules"), a public hearing is scheduled to be held at 17 North State Street, Suite 1220, Chicago, Illinois 60602, on the 30th day of June 2004, at 10:00 a.m., or as soon thereafter as counsel may be heard, before Soula J. Spyropoulos, Esq., or another duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order shall be entered revoking Steven R. Jaloza'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 Respondent was registered with the Secretary of State as a salesperson in the State of Illinois pursuant to Section 8 of the Act.

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2. That on September 26, 2003 NASD entered Order Accepting Offer of Settlement submitted by the Respondent (Order) regarding DISCIPLINARY PROCEEDINGS NO. CL1030003 which sanctioned the Respondent as follows:
 - A. suspension from associating with any member of NASD firm in any capacity for a period of forty-five days; and
 - b. fined \$10,000.
3. That the Order found:
 - a. From in or about May 1999 to in or about August 2000, the Respondent and another individual (hereinafter "Mr. F") were the principal owners of Joseph Dillon, and the firm's only two directors. The Respondent was Joseph Dillon's Chief Executive Officer, while Mr. F was Joseph Dillon's Executive Vice President in charge of managing Joseph Dillon's sales force.

From in or around November 1999 through in or around February 2000, Joseph Dillon, acting through the Respondent and Mr. F, issued shares of their firm's preferred stock in a private placement offering (the "Offering"). The Offering produced gross proceeds totaling around \$630,000. According to the Offering's Memorandum ("Memorandum"), the primary objective of the Offering was to fund the development of a website that would offer an array of online services to Joseph Dillon's clients. However, none of the Offering's proceeds was spent on developing Joseph Dillon's online division.

During and in months following the Offering, Joseph Dillon provided funding to two new business ventures - Long Island Sports, LLC ("LI Sports") and Quintessential Media, Inc. ("Quintessential") - which totaled \$140,500 and \$130,000, respectively. LI Sports was formed in July 1999 in the State of New York and was established to operate a minor league basketball team on Long Island in the then-newly-created American Basketball Association ("ABA"). The Respondent and Mr. F each had an ownership interest in LI Sports and were co-founders of the ABA. Quintessential was incorporated in the State of Delaware in October 1999, and was purportedly a theater production company. According to the Respondent, Quintessential was funded by proceeds from the Offering.

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- b. The Memorandum failed to provide any information concerning Joseph Dillon's funding of LI Sports. Respondent's failure to disclose the existence of this funding constituted a material omission. By failing to disclose that he was engaged in self-dealing, Respondent acted in contravention of Section 17(a)(2) and section 17(a)(3) of the Securities Act of 1933, and violated NASD Conduct Rule 2110.
- c. The Memorandum, in discussing the proposed creation of Joseph Dillon's online division, stated that Joseph Dillon maintained approximately 43,000 customer accounts at the time of the Offering and that, based on this number of customer accounts, Joseph Dillon believed that it had a sufficient number of users to support the development of its online division. The Memorandum, however, failed to disclose that, at the time of the Offering, most of these accounts were inactive, i.e., had no activity and no account balance for at least the prior twelve months. The failure to specify the number of accounts that was actually active constituted a material omission.

The Respondent was responsible for determining the number of customer accounts. By failing to inform investors that the number of accounts that was actually active was far less than what was asserted in the Memorandum, the Respondent acted in contravention of Section 17(a)(2) and Section 17(a)(3) of the Securities Act of 1933, and violated NASD Conduct Rule 2110.

- d. Respondent, as an officer and as a director of Joseph Dillon, owed a duty of care to Joseph Dillon's shareholders. The Respondent failed to exercise reasonable care in connection with his decision, on behalf of Joseph Dillon, to invest in Quintessential. The Respondent failed to engage in a meaningful examination of Quintessential's business operations or take the necessary steps to ensure that Quintessential was a legitimate business enterprise with a sound business plan. Accordingly, by failing to exercise reasonable care in connection with his decision to invest in Quintessential, the Respondent violated NASD Conduct Rule 2110.
- e. In July 2000, while conducting a securities business, Joseph Dillon failed to make and preserve required books and records in accordance with SE Rules 17a-3 and 17a-4. These records included the following: general ledger, trial balance, balance sheet,

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income statement, bank reconciliation, and net capital computation.

As Chief Executive Officer, the Respondent was responsible for ensuring that Joseph Dillon complied with its recordkeeping obligations. Accordingly, the Respondent violated NASD Conduct Rules 3110 and 2110.

- f. In 2000, Joseph Dillon was required to file its Financial and Operational Combined Uniform Single (“FOCUS”) reports with NASD on a monthly basis pursuant to SEC Rule 17a-5. Joseph Dillon failed to file its FOCUS report for the period ending July 31, 2000, as required by SEC Rule 17a-5.

As Chief Executive Officer, the Respondent was responsible for ensuring that Joseph Dillon complied with SEC Rule 17a-5. Accordingly, the Respondent violated NASD Conduct Rules 2110.

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(1)(j) of the Act.
6. That by virtue of the foregoing, 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 130.1104 of 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.

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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 include with this Notice.

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

DATED: This 20th day of May 2004.



JESSE WHITE
Secretary of State
State of Illinois

Attorney for the Secretary of State:

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Illinois Securities Department
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Hearing Officer:

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