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**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2006006518901**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Paul Benz, Respondent
CRD No. 1548330

Pursuant to NASD Rule 9216 of FINRA's Code of Procedure, Respondent Paul Benz submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the Respondent alleging violations based on the same factual findings.

I.

ACCEPTANCE AND CONSENT

- A. I hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Paul Benz, CRD No. 1548330, first became registered as a General Securities Representative and a Uniform Securities Agent - State in 1987. In 1992, Benz became registered as a General Securities Principal. Between March 2004 and February 26, 2007, he was registered as a General Securities Representative and Uniform Securities Agent - State with Chicago Investment Group, LLC ("CIG"). Benz has not been associated with a member firm since his termination from CIG on February 26, 2007. FINRA retains jurisdiction over Benz pursuant to Article 5, Section 4 of the By-Laws, as the conduct that serves as the basis for this action commenced prior to his termination from a member firm and this action has been filed within two years after the effective date of his last termination of registration from a member firm.

Benz has a disciplinary history. On March 15, 2005, Benz received two 30 day concurrent suspensions in a principal capacity, a fine of \$7,500, and was required to re-qualify as a principal in connection with net capital and Rule 8210 violations. Benz also was censured and fined \$5,000 on August 10, 2000, for a previous net capital violation..

OVERVIEW

Between April 24 and October 31, 2006 (the "review period"), Benz and a trader at CIG manipulated the thinly traded common stock of South Texas Oil Company ("STXX"). They accomplished this by making trades in the account of one of Benz's customers, CIL, and by making a market in STXX from August 29 through October 31, 2006. These activities contributed to the price of STXX increasing from \$0.35 to \$4.05, a gain of over 1,000%.

CIL's account appears to have been controlled by a close relative of Benz, who was the controlling manager of a hedge fund (the "Hedge Fund") with a significant position in South Texas Oil. In July 2005, the Hedge Fund entered into a subscription agreement with STXX by purchasing \$2.3 million in convertible debentures. The agreement allowed the Hedge Fund to exercise the convertible debentures at a price of \$.587 per share and convert them into the number of shares equal to 45% of the equity of the fully diluted shares of South Texas Oil. On June 22, 2006, when STXX was trading at \$1.10, the Hedge Fund converted the debentures and became the owner of 58% of South Texas Oil.

The transactions Benz directed in STXX were designed to create activity and raise the price of the stock for the purpose of inducing others to purchase it. Most of the trading activity occurred at the end of the month, which inflated the month-end value of the Hedge Fund, and in turn increased its monthly management fees which benefited Benz's relative. At the time of the conversion on June 22, 2006, based on market price, the Hedge Fund's investment in STXX had earned unrealized profits of approximately \$7 million. By the end of October 2006, its unrealized profits had increased to approximately \$22 million. Moreover, as a result of his trading of STXX on behalf of CIL, Benz earned about \$87,750 in commissions.

By virtue of the above actions, Benz violated Section 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, and NASD Conduct Rules 2120 and 2110.

In addition, during the course of the Staff's investigation, Benz violated NASD Rule 8210 by failing and refusing to respond to the Staff's requests for documents or information and to appear to provide testimony pursuant to NASD Rule 8210.

FACTS AND VIOLATIVE CONDUCT

I. General Background

A. The CIL Account

In March 2004, Benz opened an account at CIG for a new corporate customer, CIL. The three listed authorized users of the account were all residents of the Bahamas. One of the authorized users was a director of the Hedge Fund, where a close relative of Benz was the controlling manager and Chairman and CEO of the Hedge Fund's investment management company.

B. South Texas Oil Company

South Texas Oil is a Texas-based oil and gas exploration company. Its common stock, STXX, is a thinly traded over-the-counter bulletin board stock. Between February 2006 and April 23, 2006, the price of STXX swung between \$0.18 and \$0.49 on relatively little volume. During this time period, the total trading volume of STXX was 84,424 shares, an average of 3,377 shares per day on the 25 days STXX traded.

During the period prior to CIL's initial purchase of STXX on April 24, 2006, the publicity about the company was negative. On April 6, it was reported that South Texas Oil was experiencing cash flow problems and that its Operational Cash Flow Per Share ("OPS") ranking, had been lowered. Overall during the review period, the news about South Texas Oil was negative.¹

C. The Hedge Fund's Interest in South Texas

In July 2005, South Texas Oil entered into a subscription agreement with the Hedge Fund to sell it \$2.3 million in convertible debentures. The agreement provided that the convertible debentures could be exercised at a price of \$.587 per share and be convertible into the number of shares equal to 45% of the equity of the fully diluted shares of the company. On the day before the agreement, STXX closed at \$.30.

II. CIL and CIG's Trading of STXX

Between April 24, 2006 and October 31, 2006, approximately 2.4 million shares of STXX traded in the market and the closing price increased from \$0.35 to \$4.05, for a gain of 1,057%. A significant portion of the spikes in the price and volume of STXX happened towards the end of each month. Overall, CIG was responsible for 35% of the total volume in STXX and the majority of the trading by CIG was for the benefit of the CIL account. Benz directed CIL's account activity in STXX and CIG's trading in STXX.

According to Benz's phone records from June 6 through October 31, 2006, on the

¹ On August 8, 2006, one of the rare positive reports indicated that STXX had a net profit during July. However, also on August 8, stockdiagnostics.com reiterated an OPS rank of 8, the lowest possible value, placing it in a group of companies with the highest risk of going out of business. On August 30, 2006, there were reports that STXX had experienced a two-year high for cash flows and a two-year low for free cash flow. There were no press reports during September and October.

majority of days in which the CIL account traded shares of STXX, Benz called his relative and then, within five minutes, called the CIG trader. During this same time period, there were no calls from Benz to any numbers in the Bahamas where CIL's authorized users resided.

CIG's activity in STXX can be divided into two periods. Between April 24, 2006 and August 28, 2006, Benz directed a trader at CIG to execute transactions for the CIL account. Beginning on August 29, Benz directed this same CIG trader to make a market in STXX and also to continue to execute transactions for the CIL account. During both periods, Benz's efforts contributed to the significant price increase of STXX.

A. April 24 – August 28, 2006

On April 24, the CIL account made its initial purchase of 60,000 shares of STXX, at prices between \$0.30 and \$0.35 per share, accounting for 42% of the total trading volume that day. The purchase was notable because it was more than double the total number of shares that traded during the 30 days prior to April 24.

Between April 25 and May 31, CIL bought an additional 109,800 shares at increasing prices from \$0.535 to \$1.41, the closing price on May 31. CIL did not sell any stock during this period. However, this activity helped boost the price of STXX to a level that allowed the Hedge Fund to exercise its convertible debentures in June and take control of South Texas Oil.

From June 1 through August 28, the CIL account bought an additional 104,000 shares of STXX and sold just over 70,000 shares. Overall, from April 24 to August 28, the closing price of STXX went from \$0.35 to \$1.94. The trading volume in the CIL account, which mainly consisted of purchases, made up 32.5% of the total market activity in STXX during this time.

B. August 29 – October 31, 2006

On August 29, at Benz's request, the CIG trader began making a market in STXX. Between August 29 and October 31, CIG was an active market maker in STXX both in volume traded and bid movement. During this time, CIG's influence as a market maker contributed greatly to the inside bid increasing from \$1.70 to \$3.90. Benz directed the CIG trader's trading of STXX and gave him instructions on where to set his quotes and how much to trade.

Immediately after becoming a market maker, on August 30 and August 31, CIG dominated the market. CIG was at the inside bid 95% of the time and was responsible for over 80% of the total volume of STXX transactions during these last two days of August. Because of Benz's efforts, the price increased from \$1.90 to \$2.20, an increase of approximately 16%.

During August and September, the CIL account, as directed by Benz, continued

its concentrated buying pattern, buying approximately 121,000 shares while selling only 45,000 shares.

In or around September, 2006, CIL opened an account at another broker dealer, where it also bought STXX. In contrast to the CIL account at CIG, the CIL account at the other broker dealer listed Benz's relative as having trading authorization. On the last three days of September, the CIL account at the other broker dealer bought shares of STXX. On September 28 and 29, the two CIL accounts, combined, were responsible for 49% of STXX total market volume while, at times, trading on opposite sides of the market.

In October 2006, the CIL account at CIG sold 50,000 shares of STXX, without purchasing any additional shares. At the same time, Benz directed the CIG trader to continue to buy STXX in CIG's inventory account. CIG bought 58,890 and sold 68,390 with other market makers. The closing price on October 31 was \$4.05

From August 29 to October 31 time frame, CIG was at the inside bid 52% of the time and responsible for approximately 37% of the volume. Overall, during the entire review period, market interest in STXX increased significantly. While only four market makers made a market in STXX prior to April 24, by the end of October 31, there were a total of 15 market makers.

On November 1, 2006, the CIL account at CIG received 72,169 shares of STXX directly from the Hedge Fund.

C. Manipulative Characteristics of CIL's Trading in STXX

1. Transactions Without Apparent Business Purpose

CIL's buying and selling of STXX, at the direction of Benz, made little economic sense. During several periods, CIL alternated between buying and selling while holding a large number of shares in the account. For example, during June 2006, it purchased 41,027 shares of STXX and sold 58,000 shares while already holding 223,827 shares in the account. In September 2006, it purchased 48,800 shares and sold 45,000 shares of STXX while holding 347,807 shares. During the six-month review period, the CIL account bought 398,107 STXX shares and sold 238,680 shares.

Moreover, after CIL sold shares, it frequently bought them back at a higher price. For example, from the end of June through mid-July, CIL sold 70,800 shares of STXX at an average price of \$1.52 and then bought back 70,800 at an average price of \$1.92. During these sales and repurchases, CIL maintained a position of over 200,000 shares of STXX in the account. In addition, on the last two days of September, CIL sold 45,000 STXX at \$2.015 and then bought 28,800 STXX at \$2.26, before selling 50,000 more shares during October. These sales and repurchases occurred while CIL maintained a position of more than 300,000 shares.

2. End of Month Purchases

Many of CIL's purchases of STXX occurred near the close of the market and at the end of the month. During five of the seven months between April and October 2006, the largest spike in trade volume in STXX in the market overall occurred on the last day of the month (July and August) or next to last day of the month (May, June, and September). In April, the largest spike came during the last week of trading. In October, a month in which CIG did not purchase STXX, there was no noticeable end of the month price spike. Between April and September, STXX's closing price was highest on the final trading day of each month.

Between April and September, 51% of CIL's purchases occurred in the last two trading days of the month. In four of the months (April, May, June, and August), CIL's transactions set the closing price for the month, although it was not necessarily the highest price of the day. During July, CIL's final trade was entered at 3:59:09 p.m. and during September its final trade was at 3:55:38 p.m.

D. Benefits Derived From the STXX Trading

On June 22, 2006, when STXX was trading at \$1.10, the Hedge Fund exercised its convertible debentures at the exercise price of \$0.59, for an immediate gain of almost 100%. Combined with other purchases, this gave the Hedge Fund an ownership interest of approximately 58% in South Texas Oil.

At the time of the conversion, based on market price, the Hedge Fund's investment had earned unrealized profits of approximately \$7 million. As the price of STXX continued to increase, the Hedge Fund's potential profit also increased. By the end of September, the Hedge Fund's unrealized profit was over \$10 million and by the end of October, its unrealized profit had increased to approximately \$22 million.

The Hedge Fund reported its earnings, minus fees, on a monthly basis. Its monthly fees were calculated based on the fund's Net Asset Value (NAV). STXX played a large role in the Hedge Fund's NAV. As of July 2006, STXX comprised about 9% of the Hedge Fund's holdings. By the end of December, that number jumped to about 23%. Accordingly, as the value of STXX increased, it played a large role in increasing the value of the Hedge Fund. This in turn, generated increased profits for holders of the fund and management fees for Benz's relative.

Benz earned approximately \$87,750 in commissions as the broker for the CIL account.

III. Benz Failure to Cooperate

After responding to FINRA Staff's initial NASD Rule 8210 requests for information, Benz failed and refused to respond to staff's subsequent requests for documents or information and to appear to provide testimony pursuant to NASD Rule

8210.

IV. Conclusion

Benz's actions in connection with the trading of STXX during the review period constitute violations of Section 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, and NASD Conduct Rules 2120 and 2110. In addition, his failure to cooperate with the Staff during its investigation constitutes a violation of NASD Rule 8210.

OTHER FACTORS

- B. I also consent to the imposition of the following sanctions:

A bar from association with any FINRA member firm in all capacities.

I understand that if I am barred or suspended from associating with any FINRA member, I become subject to a statutory disqualification as that term is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended. Accordingly, I may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension. (See NASD Rule 8310 and IM-8310-1.)

Pursuant to NASD IM-8310-3(e), a bar or expulsion shall become effective upon approval or acceptance of this AWC.

II.

WAIVER OF PROCEDURAL RIGHTS

I specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against me;
- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and

- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, I specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

I further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of NASD Rule 9143 or the separation of functions prohibitions of NASD Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

I understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and
- C. If accepted:
1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against me;
 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about my disciplinary record;
 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-3; and

4. I may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. I may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects my right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

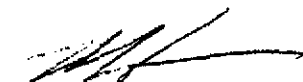
I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce me to submit it.

12-12-08

Date


Respondent Paul Benz

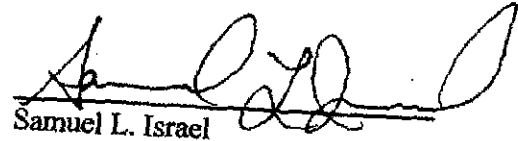
Reviewed by:


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Accepted by FINRA:

1/13/09
Date
~~noted~~

Signed on behalf of the
Director of ODA, by delegated



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