

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2006006518902**

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REGISTRATION & DISCLOSURE

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

RE: Darren White, Respondent
CRD No. 2945030

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

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

Darren White, CRD No. 2945030, first became registered with FINRA as a Corporate Securities Limited Representative in December 1998. Between August 15, 2002 and April 24, 2007, White was registered with Chicago Investment Group ("CIG") as a Series 7, 24, 55, 62 and 63. His registration with CIG was terminated on April 24, 2007, and he has not been registered in the securities industry since his termination from CIG. FINRA retains jurisdiction over White 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 of registration 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.

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OVERVIEW

Between April 24 and October 31, 2006 (the "relevant period"), White, a trader at CIG aided and abetted the price manipulation of the thinly traded common stock of South Texas Oil Company ("STXX") by CIG Registered Representative Paul Benz. White rendered substantial assistance to Benz in manipulating the price of STXX. At Benz's direction, White bought and sold STXX for Benz's customer, CIL, and made a market in STXX from August 29 through October 31, 2006. Benz directed White's trading of STXX and gave him instructions on where to set his quotes and how much to trade. At the time that White made the trades for the CIL account and made a market in STXX, at Benz's direction, he had a general awareness or knowledge that his actions were part of an overall course of conduct that was illegal or improper. White acted, at a minimum, recklessly. These activities contributed to the price of STXX increasing from \$0.35 to \$4.05, a gain of over 1,000%.

By virtue of the above actions, White violated NASD Conduct Rules 2120 and 2110 by aiding and abetting the price manipulation of STXX.

FACTS AND VIOLATIVE CONDUCT

I. General Background

A. White and Paul Benz

In 2006, White was working as a trader at CIG. White worked out of his home in California. At that time, CIG had a broker, Paul Benz, who it hired based on White's recommendation, who worked out of his home in New Jersey.

B. Benz's Customer CIL

Benz had a 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 a hedge fund (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. In April 2006, CIL held a substantial number of shares of STXX, the common stock of South Texas Oil Company.

C. 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.

On April 6, 2006, 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.

From April 6 through October 31, 2006, the news about South Texas Oil generally was negative.¹

According to South Texas Oil's Form 10-K and 10-Q filings, 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. The public filings also mentioned Benz's relative's role at the Hedge Fund.

II. The Manipulation 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. White handled all of CIG's trading in STXX for the CIL account and for CIG's market making account. Benz directed CIL's account activity in STXX and CIG's trading in STXX and White carried out his instructions.

CIG's activity in STXX can be divided into two periods. Between April 24, 2006 and August 28, 2006, White, as directed by Benz, executed transactions for the CIL account. Beginning on August 29, White, at Benz's direction, made a market in STXX and also continued to execute transactions for the CIL account. During both periods, Benz's and White'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

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, another report 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.

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, White began making a market in STXX. Between August 29 and October 31, White was an active market maker in STXX both in volume traded and bid movement. During this time, White's influence as a market maker contributed greatly to the inside bid increasing from \$1.70 to \$3.90. Benz directed White'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 in STXX, on August 30 and August 31, CIG, acting through White, 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 and White's efforts, the price of STXX increased from \$1.90 to \$2.20, an increase of approximately 16%.

During August and September, the CIL account, as directed by Benz and traded by White, continued its concentrated buying pattern, buying approximately 121,000 shares while selling only 45,000 shares.

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 White 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 relevant 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.

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 and as carried out by White, 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 CIL 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.

III. White's Aiding and Abetting Liability

White aided and abetted the price manipulation of STXX by Benz. White rendered substantial assistance in the manipulation by entering the trades for the CIL account and making a market in STXX. At the time that White made the trades for the CIL account and made a market in STXX, at Benz's direction, he had a general awareness or knowledge that his actions are part of an overall course of conduct that was illegal or improper. White acted, at a minimum, recklessly. White's activities relating to STXX earned him a total of approximately \$14,625 in profits from market making and commissions on agency trades.

IV. Conclusion

By virtue of the above conduct, White violated NASD Conduct Rules 2120 and 2110 by aiding and abetting the manipulation of the price of STXX.

B. White also consents to the imposition of the following sanctions:

1. A suspension from associating with any FINRA member firm in any and all capacities for a period of one year, and, before again becoming associated with any FINRA member firm in a capacity that requires a Series 7 or Series 55, White shall re-qualify by examination for a Series 7 and/or Series 55.

White understands that if he is suspended from associating with any FINRA member, he becomes 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, he 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 FINRA Rule 8310 and FINRA Rule 8311)

2. White has submitted a sworn financial statement and demonstrated a limited ability to pay. In light of the financial status of Respondent, a fine of \$7,500 has been imposed. The fine shall be due and payable upon reassociation with a member firm following the one-year suspension noted above or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier, pursuant to the installment payment plan described in the Election of Payment form.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against me;
- B. To be notified of the 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 FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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.

My limited ability to pay has been considered in connection with the monetary sanctions imposed in this matter. I specifically and voluntarily waive any right to claim that I am unable to pay at any time hereafter the monetary sanction(s) imposed in this matter.

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 FINRA 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 FINRA Rule 8313; 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.

- D. I may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

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.

3/16/09

Date

Darren White

Respondent Darren White

Reviewed by:

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Counsel for Respondent

Accepted by FINRA:

4/2/09
Date

Signed on behalf of the
Director of ODA, by delegated authority



Samuel L. Israel
Associate Vice President and Chief Counsel
FINRA Department of Enforcement
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