

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

COMPLAINANT,

v.

STEPHEN GRIVAS (CRD No. 1829703),

RESPONDENT.

DISCIPLINARY PROCEEDING
No. 2012032997201

HEARING OFFICER

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. In June 2012, while he was registered with FINRA member firm Obsidian Financial Group LLC ("Obsidian"), Respondent Stephen Grivas converted approximately \$280,000 of investor funds raised through a fund he formed to purchase Facebook, Inc. stock, Obsidian Social Networking Fund I (the "Fund"). The Fund raised over \$11.2 million from 54 investors but was not able to deploy all of the invested funds. Rather than return the remainder to investors, Grivas transferred \$280,000 to cover the net capital deficiency of a broker-dealer he partially owned and through which he was registered, Obsidian Financial Group LLC ("Obsidian"). By reason of the foregoing, Grivas violated FINRA Rule 2010.

RESPONDENT AND JURISDICTION

2. Grivas first became registered with FINRA as a Corporate Securities Limited Representative (CS) on or about March 25, 1994 through a former member firm. He became registered as a General Securities Representative (GSR) on or about April 19, 1999 through another member firm. He has been registered with 16 FINRA member firms over the past 19 years. Since April 14, 2008, Grivas has been registered as a CS and GSR through member firm Obsidian.
3. Obsidian had been experiencing net capital difficulties since at least February 2012. Since on or about February 22, 2013, Obsidian has been ceased from operating a securities business.
4. Grivas is an owner of Obsidian Holdings LLC ("Holdings"), the primary owner of the broker-dealer Obsidian. The majority shareholder of Holdings is a passive foreign investor.

CAUSE OF ACTION

Conversion/Misuse of Funds (FINRA Rule 2010)

5. The Department re-alleges and incorporates by reference paragraphs 1 through 4 above.
6. In or about May 2011, Grivas formed the Fund to pool investment funds for the sole purpose of investing, acquiring, holding and/or selling Facebook, Inc. ("Facebook") securities. The Fund's intention, as set out in the private placement memorandum ("PPM"), was to purchase shares of Facebook on the secondary market for private company stock. By offering investors the opportunity to invest in the Fund, they

would gain an indirect interest in privately held Facebook stock before an initial public offering.

7. At all relevant times, Grivas was the sole designated Manager for the Fund and had sole authority to invest Fund assets, pay Fund expenses, and otherwise transfer the assets of the Fund. He had sole signatory authority over the Fund's Operating Account, which invested the Fund's assets and the Fund's Management Account, which was set up to receive any of the management fees due to the Fund.
8. Between September 2011 and April 2012, the Fund raised \$11,202,305 from 54 investors.
9. Grivas's broker-dealer Obsidian was one of three placement agents that sold interests in the Fund. Obsidian registered representatives solicited prospective investors to invest in the Fund. Obsidian sold the interests to 24 existing customers of the firm and the other two placement agents sold interests to the remaining 30 investors. In connection with the sale of interests in the Fund, placement agents distributed a PPM, which contained the operating agreement ("Operating Agreement") for the Fund.
10. The Fund used the money raised from the offering to purchase Facebook shares. In two purchases, on or about April 4, 2012 and April 17, 2012, the Fund acquired 260,000 shares of Facebook for a cost of \$9,976,750. Due to limited availability of shares in the secondary market, the Fund was unable to invest all of the funds it raised into Facebook shares.
11. The PPM and Operating Agreement stated that the Manager of the Fund "shall receive a management fee from the gross proceeds of the Offering equal to the greater

of \$50,000 or two percent (2%) of the gross proceeds of the Offering (the "Management Fee"). The Management Fee was payable upon the initial purchase of Facebook shares.

12. Accordingly, on May 9, 2012, Grivas wired \$224,046 from the Fund's operating account to its management account, as his Management Fee pursuant to the terms of the Fund's PPM. The \$224,046 constituted two percent (2%) of the gross proceeds of the Offering, \$11.2 million.
13. On May 18, 2012, Facebook commenced its initial public offering (IPO) and the stock began trading on the Nasdaq exchange. At this point in time, there was approximately \$297,094 remaining in the Fund.
14. On June 14, 2012, Grivas wired an additional \$280,000 from the Fund's Operating Account to its Management Account. He then immediately transferred the \$280,000 from the Fund's Management Account to a different bank account, Olympus Capital Group ("Olympus"). Grivas owns Olympus and maintains the Olympus bank account for his own personal investment purposes; he had sole authority to withdraw funds from the account. At the time he transferred the funds, on June 14, 2012, the Olympus bank account held a balance of approximately \$34,936.
15. That same day, June 14, 2012, Grivas wired the entire \$280,000 from Olympus' bank account to the bank account of Obsidian's holding company, Holdings. The next day, on June 15, 2012, Grivas wired \$280,000 from Holdings' bank account to the bank account of Obsidian, the broker-dealer, which was then experiencing financial difficulties.

16. On June 15, 2012, Obsidian submitted a Securities Exchange Act of 1934 Rule 17a-11(b) notification, indicating that the firm had a net capital deficiency of \$110,000 during the period of May 15, 2012 through June 15, 2012. The notification also indicated that Obsidian had received a capital contribution of \$280,000 on June 15, 2012 which allowed the firm to get back into capital compliance.
17. Grivas was not entitled to withdraw \$280,000 in June 2012 and transfer it to his capital-deficient broker-dealer, Obsidian. Neither the Fund's PPM nor the Operating Agreement allowed Grivas to receive more than the maximum two percent Management Fee from the Fund which he had already withdrawn on May 9, 2012. By receiving \$224,046 on May 9, 2012 and an additional \$280,000 on June 14, 2012, Grivas withdrew 4.5% of the gross proceeds of the Fund, far exceeding the two percent allowed pursuant to the PPM and Operating Agreement.
18. Grivas did not provide any notice, before or afterward, to the investors in the Fund that he was withdrawing \$280,000 from the Fund or using proceeds of the Fund to capitalize his broker-dealer Obsidian. Grivas did not issue a note or any other type of agreement, on his behalf or Obsidian's behalf, acknowledging the \$280,000 withdrawal from the Fund's bank account.
19. For purposes of assisting Grivas with the Fund's business activities, Grivas retained a consultant, SM, on behalf of the Fund. However, Grivas did not disclose to SM that he had transferred \$280,000 from the Fund to Obsidian until February 20, 2013, which was the day before SM provided investigative testimony to FINRA. Until that time, SM sent Grivas repeated emails informing him that the Fund needed to return the remaining, uninvested funds to investors.

20. On June 19, 2012, SM provided Grivas with a spreadsheet detailing the individual amounts due each investor, after allowing for remaining Fund expenses. Grivas also was aware that SM was informing investors, who inquired with the Fund, that they would be receiving back a percentage of the invested funds. SM's calculations included the \$280,000 in funds that Grivas had transferred to Obsidian.
21. Fund investors have not received a return of their remaining funds and Grivas has not returned the \$280,000 to any of the Fund's bank accounts.
22. By converting investor funds to his own use and/or misusing investor funds, Grivas violated FINRA Rule 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondent committed the violation charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that Respondent be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest; and,
- C. order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA DEPARTMENT OF ENFORCEMENT

Date: April 30, 2013



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