

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 7891 / September 20, 2000

SECURITIES EXCHANGE ACT OF 1934
Release No. 43307 / September 20, 2000

ADMINISTRATIVE PROCEEDING
File No. 3-10291

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In the Matter of	:	ORDER INSTITUTING CEASE-AND-DESIST PROCEEDING, MAKING
	:	FINDINGS AND IMPOSING CEASE-
JONATHAN G. LEBED,	:	AND-DESIST ORDER AND OTHER
A Minor, through his	:	RELIEF
Guardian, Constance Lebed	:	
	:	
	:	
	:	

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that public cease-and-desist proceedings be instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act") and Section 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Jonathan G. Lebed ("Lebed" or "Respondent").

In anticipation of the institution of these proceedings, Lebed has submitted an Offer of Settlement ("Offer"), which the Commission has determined to accept. Solely for the purpose of this proceeding and any other proceedings brought by or on behalf of the Commission or in which the Commission is a party, and without admitting or denying the findings contained herein, except for the jurisdiction of the Commission over him and over the subject matter of this proceeding, which is admitted, Lebed consents to the entry of the findings and imposition of sanctions contained in this Order Instituting Cease-and-Desist Proceeding, Making Findings and Imposing Cease-and-Desist Order and Other Relief ("Order").

Accordingly, **IT IS ORDERED** that proceedings, pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, against Lebed be, and hereby are, instituted.

II.

On the basis of this Order and the Offer submitted by Lebed, the Commission makes the following findings:

Respondent

Jonathan G. Lebed is 15 years old and is a resident of Cedar Grove, New Jersey.

Facts

1. Introduction

On eleven separate occasions between August 23, 1999 and February 4, 2000, Lebed engaged in a scheme on the Internet in which he purchased large blocks of thinly traded microcap stocks and, within hours of making such purchases, sent numerous false and/or misleading messages, or "spam," over the Internet touting the stocks he had just purchased. Lebed then sold all of these shares, usually within 24 hours, profiting from the increased price his messages had caused. During the course of the scheme, Lebed realized a total net profit of \$272,826.¹

2. Lebed's Pattern of Trading

Almost all of the stocks that are part of this scheme were traded on the NASD Over the Counter Electronic Bulletin Board, with the balance traded on the NASDAQ National Market. Lebed conducted his trading in custodial accounts at two broker-dealers. Although these accounts were in his father's name, Lebed made all of the trading decisions.

The postings Lebed made to Internet website message boards in connection with the eleven transactions referred to above included baseless price predictions and other false and/or misleading statements, and always caused an increase in the volume and price of the stock. These messages were generally devoid of substantive content and, in addition to false price predictions, touted the stock by claiming, among other things, that the stock was about to "take off," would be the "next stock to gain 1,000%," and was "the most undervalued stock ever."

¹ The issuers of the manipulated stocks were Manchester Equipment Company, Inc., Just Toys, Inc., Yes Entertainment, Inc., Fotoball USA, Inc., Man Sang Holdings, Inc., West Coast Entertainment, Inc., Havana Republic, Inc., Classica Group, Inc. and Firetector, Inc.

In order to carry out the scheme, Lebed would acquire a position in a thinly traded microcap stock, buying between 17% and 46% of the volume on the day of his purchases. The momentum of this purchasing would often cause the price of the stock to rise. Shortly thereafter, almost always on the same day as the purchase, and after the close of the market, he would begin posting false and/or misleading messages touting the stock. Lebed used a fictitious author name for each message. For each stock manipulation he used multiple fictitious author names. Generally, Lebed would post 200 to 300 identical messages to various Yahoo! Finance message boards during this first round of postings. The next morning, before or as the markets were opening, he would send another wave of identical false and/or misleading messages (the same approximate number of messages), employing additional fictitious author names. On that day, as the stock price was rising in reaction to the hundreds of messages he had posted, Lebed would sell his entire position in the particular stock, always realizing a profit. The gross profits on the eleven transactions ranged from more than \$11,000 to nearly \$74,000.

In some instances, Lebed would place a sell limit order prior to the close of the market on the day he purchased the stock in order to ensure that he would not miss the price increase of the stock while he was in school the next day. In other instances, Lebed would place the order on the sell date.

The posted messages always caused the price and volume of the touted stocks to increase dramatically. On the date that Lebed liquidated his position, the trading volume in the stock reached either record or near record highs. In some cases, the stock reached a 52-week high for both volume and price.

3. A Representative Transaction

-Man Sang Holdings, Inc.

A representative example of Lebed's trading activity is his trading in the stock of Man Sang Holdings, Inc. (ticker symbol "MSHI"). On January 5, 2000, Lebed purchased 18,000 shares of MSHI at prices ranging from \$1.375 to \$2.00 per share. The trading volume on December 30, 1999 was 100 shares with a closing price of \$1.125 per share. On January 5, 2000, the volume was 60,700 shares at a closing price of \$1.8125. At 11:46 p.m. on January 5, 2000, Lebed posted messages on Yahoo!Finance message boards claiming that MSHI was "the most undervalued stock in history" and would be trading at more than \$20 per share "very soon." On January 6, 2000, in response to the messages posted by Lebed, the volume of trading skyrocketed to 1,074,900 shares at a high of \$4.6875 per share. On that date, Lebed sold all 18,000 shares of MSHI at prices ranging from \$3.8125 to \$4.00 per share. His net profit was \$34,959. MSHI issued no press releases and there was no news in the marketplace during this time period to account for the rise in price and volume.

Three weeks later, Lebed again manipulated the price of MSHI stock. From January 27, 2000, the date he purchased MSHI and posted his spams touting the stock (again predicting a price of \$20 "very soon"), until the following day, January 28, 2000, the date he liquidated his entire position, the volume of the stock increased from 71,500 to 1,879,000 shares, and the price jumped from \$2.25 to a high of \$5.125. Both the price and volume were 52-week highs. Lebed realized a net profit of \$37,901.

Legal Discussion and Findings

Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder prohibit acts, transactions, practices or courses of business that operate as a fraud or deceit in connection with the offer, purchase or sale of securities, including misrepresentations and omissions of material fact. Section 10(b) and Rule 10b-5 thereunder expressly prohibit the use of any manipulative or deceptive device.

Section 8A of the Securities Act and Section 21C of the Exchange Act authorize the Commission to enter a cease-and-desist order against an individual who has violated any provision of the Securities Act or the Exchange Act or rules thereunder.

Based on the scheme described above, the Commission finds that Lebed violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

III

In view of the foregoing, the Commission deems it appropriate to impose the sanctions specified in the Offer submitted by Lebed.

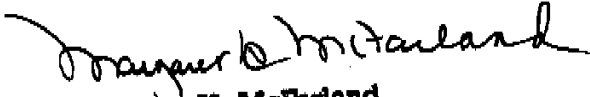
Accordingly, **IT IS HEREBY ORDERED** that Lebed be and hereby is ordered to cease and desist from committing or causing any violation and any future violation of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

IT IS FURTHER ORDERED that Respondent shall, within seven days of the entry of this Order, pay disgorgement of \$272,826 and prejudgment interest of \$12,174 for a total amount of **\$285,000** to the United States Treasury. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Comptroller, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Alexandria, Stop 0-3, VA 22312; and (D) submitted under cover letter that identifies Jonathan G. Lebed as a Respondent in these

proceedings and the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Ronald C. Long, District Administrator, Philadelphia District Office, Securities and Exchange Commission, 601 Walnut Street, Suite 1120 E., Philadelphia, PA 19106.

By the Commission.

Jonathan G. Katz
Secretary


By: **Margaret H. McFarland**
Deputy Secretary