OFFICE OF THE ATTORNEY GENERAL
BUREAU OF SECURITIES
STATE OF NEW JERSEY
153 HALSEY STREET
P.O. BOX 47029
NEWARK, NEW JERSEY 07101

IN THE MATTER OF: FIRST MONTAUK SECURITIES CORP. CRD # 13755	**CONSENT ORDER**

BEFORE FRANKLIN L. WIDMANN, BUREAU CHIEF

Pursuant to the authority granted to the Chief ("Bureau Chief") of the New Jersey Bureau of Securities (the "Bureau") by the Uniform Securities Law (1997), N.J.S.A. 49:3-47 et seq. (the "Securities Law"), and after investigation, review and due consideration of the facts set forth below, the Bureau Chief and First Montauk Securities Corp. through counsel (William E. Goydan, Esq. of Wolff & Samson, P.C.) now desire to resolve this matter by way of civil monetary penalty and other remedial actions as described herein.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Bureau Chief makes the following findings of fact and conclusions of law:

1. First Montauk Securities Corp. ("FMSC"), a principal subsidiary of First Montauk Financial Corporation, is a New York corporation and broker-dealer operating under the

trade name "Montauk Financial Group." FMSC has been registered with the Bureau since May 30, 1985 and maintains its corporate headquarters at 328 Newman Springs Road, Red Bank, New Jersey. FMSC operates through approximately 115 independent branch offices in the United States.

2. First Montauk Financial Corporation ("FMFC") is a New Jersey corporation with principal offices located at 328 Newman Springs Road, Red Bank, New Jersey. FMFC owns at least seventy-five percent of FMSC. FMFC is a public company which trades on the over-the-counter bulletin board system, symbol FMFK.OB.

3. Fiserv Securities, Inc. ("Fiserv"), a Delaware corporation, was at all relevant times a broker-dealer that maintained a clearing arrangement with FMSC.

4. Herbert Kurinsky (CRD# 276776) was at all relevant times co-founder, Director, President and Chief Executive Officer of FMSC, and Chairman or President of FMFC. Herbert Kurinsky has been registered with the Bureau as an agent of FMSC since September 1986.

5. William Kurinsky (CRD# 1304036) was at all relevant times co-founder, Director, Vice President, Chief Operating Officer and Chief Financial Officer of FMSC, and Director, Vice President, Chief Operating Officer or Chief Financial Officer of FMFC. William Kurinsky has been registered with the Bureau as an agent of FMSC since August 1986.

6. David Garfinkel (CRD# 715562) ("Garfinkel") was associated as a registered representative of FMSC from July 1997 to August 2003. Garfinkel was not registered with the Bureau at any time during his association with FMSC. Beginning in approximately July 1997, Garfinkel owned and operated an FMSC branch office located

at 850 Third Avenue, New York, New York (the "Garfinkel Branch") under the name PALS Securities Group.

7. Upon joining FMSC, Garfinkel had been the subject of numerous customer complaints and regulatory actions. Consequently, he did not become registered in the State of New Jersey and was required by regulatory agencies in the States of Michigan and Virginia to agree to special supervisory agreements at FMSC in order to become registered in those states.

8. Although a manager was assigned to the Garfinkel Office, Garfinkel controlled and directed the activities of the office. In fact, despite FMSC's knowledge of his special supervision agreements, FMSC allowed Garfinkel to hire, control and compensate his supervisor and another agent.

9. On or about September 1997, Garfinkel began trading in the Nextel International Zero-Coupon Bond (the "Nextel Bond"). The Nextel Bond, initially issued in April 1997 by McCaw International, was a zero coupon bond until April 15, 2002, when it stepped up to a 13% coupon. As a result of Garfinkel's actions, certain accounts of FMSC's customers became concentrated in the Nextel Bond.

10. During this time period, Garfinkel also sold the Nextel Bond to New Jersey customers utilizing the assistance of another agent to process these transactions, despite not being registered with the Bureau himself. This conduct, which was not detected by FMSC, constitutes Garfinkel (i) acting as an unregistered agent and (ii) creating false records, each of which is a direct violation of the Securities Law.

11. During the first half of 2001, the Nextel Bond began a precipitous decline in value from a high of approximately $72.50 per bond on February 2, 2001 to approximately

$39.00 per bond by June 13, 2001. During this time, the combination of the price decline of the Nextel Bond and large margin positions, generated margin maintenance calls in Garfinkel's customer accounts. Garfinkel attempted to satisfy the maintenance calls as they became due by selling the Nextel Bond to other customers and asking customers to send in cash or securities.

12. In selling the Nextel Bond to other customers Garfinkel failed to disclose the risks and speculative nature of the Nextel Bond.

13. Certain of the sales executed by Garfinkel in the Nextel Bond were done as riskless principal transactions, where FMSC took no market risk on the trades, yet generated revenues from the transactions.

14. During the first half of 2001, Fiserv notified FMSC as to the status of customer accounts with margin debt against holdings of bonds with ratings below investment grade. Most of these accounts were held by FMSC customers for whom Garfinkel purchased the Nextel Bond. In a May 24, 2001 email to FMSC management, Fiserv expressed its concern that several FMSC customer accounts had 75% or more of their holdings in the Nextel Bond that were rated below investment grade.

15. In light of the increasing number of margin maintenance calls, FMSC management became concerned that many of Garfinkel's customers might not be able to remit sufficient cash or equity to meet their margin maintenance call obligations. If FMSC's customers failed to meet their margin obligations, FMSC might bear ultimate responsibility for its customers' unsecured debts.

16. During June of 2001, and in order to address the constant Nextel Bond margin maintenance calls, senior management of FMSC developed a strategy for managing the

Nextel Bond inventory. According to the strategy, FMSC was to purchase the Nextel Bond from Garfinkel's affected customers into its own inventory account and then "re-market" the Nextel Bond to other FMSC customers, while offering sales incentives to its agents. In June 2001, FMSC also approved a term sheet on the Nextel Bond (the "Term Sheet").

17. The Term Sheet, which was intended to be used by FMSC agents while soliciting their customers, contained selling points which were misleading.

18. The Term Sheet was distributed in an email to the FMSC agents on or about June 21, 2001. The email listed an enhanced sales credit for the agents selling the Nextel Bond to their customers. The email also stated that the opportunity to obtain the Nextel Bond would be on a "FIRST COME-FIRST SERVE BASIS" and that after the "first 30 or so minutes" if any were left over additional bonds would be distributed to interested agents.

19. The selling points of the Term Sheet failed to disclose the following material information to its agents:

(a) The speculative nature and risk of the Nextel Bond;

(b) The fact that the inventory was coming from FMSC's in-house accounts;

(c) That there existed little or no market for the Nextel Bond apart from FMSC's trading for the Nextel Bond, and a large sell-off might result in a significant price decline; and

(d) That the parent company, Nextel Communications Inc., was not responsible for the outstanding debt of its subsidiary, Nextel International, in connection with the Nextel Bond obligation.

20. The Term Sheet did not instruct agents to disclose to customers that they were receiving an enhanced sales credit for each sale of the Nextel Bond.

21. As a consequence, FMSC agents sold the Nextel Bond without fairly and accurately disclosing to customers the speculative nature of the bonds and the fact that Nextel Communications Inc. was not responsible for servicing the obligations of the bonds.

22. By implementing the re-marketing strategy and limiting the sales to FMSC customer accounts, FMSC was able to avoid any open market price corrections and artificially inflate the price of the Nextel Bond.

23. FMSC continued to sell the Nextel Bond between June 21, 2001 and January 10, 2002. In total, FMSC agents marketed and sold the Nextel Bond to approximately 300 FMSC customer accounts.

24. FMSC's failure to disclose material information regarding the special sales incentive and certain risk factors in connection with the re-marketing of the Nextel Bond was a violation of N.J.S.A. 49:3-52.

25. FMSC's failure to establish and/or enforce procedures necessary to detect the activities of its agent, David Garfinkel, was a failure to supervise pursuant to N.J.S.A. 49:3-58.

26. The activities set forth herein are grounds, pursuant to N.J.S.A. 49:3-58, to suspend or revoke the broker-dealer registration of FMSC, pursuant to N.J.S.A. 49:3-70.1, to assess a civil monetary penalty and pursuant to N.J.S.A. 49:3-67, to impose such other appropriate remedial measures as may be necessary in the public interest.

WHEREAS the Bureau is the State agency with the responsibility to administer and enforce the Uniform Securities Law (1997), N.J.S.A. 49:3-47 *et seq.*, (the "Securities Law"); and

WHEREAS N.J.S.A. 49:3-67 authorizes the Bureau Chief from time to time to make such orders as are necessary to carry out the provisions of the Securities Law upon a finding that the action is necessary or appropriate in the public interest or for the protection of investors and consistent with the purposes fairly intended by the provisions of the Securities Law; and

WHEREAS FMSC and the Bureau are hereby acting to resolve and dispose of these issues as to FMSC, including its current officers, directors and employees and, separately, as to its parent, FMFC, including its current officers, directors and employees, without the expense and delay that additional proceedings would involve; and

WHEREAS FMSC admits the jurisdiction of the Bureau of Securities, neither admits nor denies the findings of fact and conclusions of law contained in this Consent Order, and consents to the entry of this Consent Order by the Chief of the Bureau of Securities; and

WHEREAS FMSC has made certain remunerations to customers affected by the conduct stated in this Consent Order and has undertaken the implementation of certain enhancements to its supervisory procedures; and

WHEREAS Herbert Kurinsky and William Kurinsky have each previously resigned from all board, managerial or supervisory positions at FMSC and have agreed to resign from all board, managerial or supervisory positions at FMFC or any of its successors no later than 30 business days from the execution of this Consent Order; and

WHEREAS the Bureau finds FMSC's sales of the Nextel Bond in violation of N.J.S.A. 49:3-52 and its failure to supervise the activities of Garfinkel in violation of N.J.S.A. 49:3-58, are grounds, pursuant to N.J.S.A. 49:3-67 and 70.1, for the entry of an order assessing a civil monetary penalty and such other remedies as may be necessary in the public interest; and

WHEREAS the Bureau Chief has found that the entry of this Consent Order is appropriate in the public interest and consistent with the purposes fairly intended by the policy provisions of the Securities Law and the regulations promulgated thereunder.

NOW THEREFORE, it is on this ~~28th~~ 29th day of September 2006, HEREBY ORDERED that FMSC, by consent and without hearing, Cease and Desist from further violations of the New Jersey Uniform Securities Act; and it is

FURTHER ORDERED that within 30 business days from the date of entry of this Consent Order, FMSC shall retain an independent consultant, not objectionable to the Bureau, to review FMSC's business practices and procedures for branch office supervision, suitability standards, and monitoring of agent sales activities. The independent consultant shall confer with FMSC and the Bureau to identify areas of concern; and it is

FURTHER ORDERED that within 120 business days from the date FMSC retains the independent consultant, FMSC shall require the independent consultant to furnish a report to FMSC which shall be reviewable by the Bureau and, at a minimum, addresses the scope and subject matter specifications agreed to pursuant to this Consent Order; and it is

FURTHER ORDERED that within 30 business days from the date of the independent consultant report, FMSC shall submit to the Bureau a report outlining all changes it intends to make to its business practices and procedures for branch office supervision, suitability standards, and monitoring of agent sales activities in response to the independent consultant report, including a timeline for implementation that is not objectionable to the Bureau; and it is

FURTHER ORDERED that, pursuant to N.J.S.A. 49:3-70.1, FMSC is assessed a civil monetary penalty in the amount of $475,000 payable upon entry into this Consent Order to "State of New Jersey, Bureau of Securities."

NEW JERSEY BUREAU OF SECURITIES

By: Franklin L. Widmann
Franklin L. Widmann
Chief, Bureau of Securities

DATED: September 29, 2006

I hereby consent to the form and entry of this consent order without admitting or denying the allegations, findings and conclusions of law set forth herein.

FIRST MONTAUK SECURITIES CORP.

By: Victor K. Kurylak
Victor K. Kurylak
President and
Chief Executive Officer

DATED: 9/28/06