

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT

TO: Department of Market Regulation
NASD

RE: Prudential Equity Group, LLC, Respondent
Broker/Dealer
CRD No. 7471

Pursuant to Rule 9216 of NASD Code of Procedure, Prudential Equity Group, LLC ("PEG" or "the firm") 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, NASD will not bring any future actions against the firm alleging violations based on the same factual findings.

The firm understands that:

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

- d. The firm 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 allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects the firm's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

The firm also understands that its experience in the securities industry and disciplinary history may be factors which will be considered in deciding whether to accept this AWC. The firm has been a member of NASD since November 2, 1939, and has the following relevant disciplinary history:

- On August 20, 2004, an AWC was accepted in which the firm was censured and fined \$30,000 for ACT reporting, trade reporting, OATS reporting, SEC Rule 10b-10, SEC Rule 11Ac1-5, and supervisory violations.
- On March 26, 2003, an AWC was accepted in which the firm was censured and fined \$6,000 for limit order display and SEC Rule 10b-10 violations.

I.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against it;
- 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 NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives 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.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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.

II.

ACCEPTANCE AND CONSENT

In Trading and Market Making Surveillance Examination No. 20042000211 (previously referred to as MRD200444606) the staff reviewed the following trading activity of the firm for trade dates January 21 and/or 22, 2004, unless otherwise noted:

- Thirty-six customer sale transactions for compliance with NASD Conduct Rules 3110 and 3370 and SEC Rule 10a-1.
- Twenty-five proprietary sale transactions for compliance with NASD Conduct Rule 3370 and SEC Rule 10a-1.
- Two hundred and ten sale transactions in Nasdaq National Market ("NNM") securities for compliance with NASD Marketplace Rule 6130.
- Six short sales in Consolidated Quotations Service ("CQS") securities for compliance with SEC Rule 10a-1.
- Fifteen limit orders for compliance with the limit order protection interpretation, best execution, NASD Marketplace Rule 6440, and SEC Rule 11Ac1-4.
- Twenty-five marketable orders received while holding non-displayed limit orders in the same securities for compliance with NASD Conduct Rule 2320.
- Fifty-one limit and market orders executed in a principal or riskless principal capacity for compliance with the obligation to report trade capacity to the Automated Confirmation Transaction Service ("ACT").
- Forty-three principal transactions reported during January 2004, as riskless principal for compliance with the SEC Section 28(e) safe harbor on soft dollar compensation.
- Four open buy limit orders and stop sell limit orders in securities traded ex-dividend for compliance with NASD Rule 3220.
- Twenty-five transactions reported in market making securities for compliance with SEC Rule 11Ac1-5.
- Statistics published on the firm's order execution report for January 2004, for compliance with SEC Rule 11Ac1-5.

- Data published on the firm's quarterly order routing report for the fourth quarter of 2003, for compliance with SEC Rule 11Ac1-6.
- The firm's establishment and implementation of a regular and rigorous review of the execution quality of competing market centers for compliance with NASD Conduct Rules 2320 and 3010.
- Ten customer transactions in OTCBB and/or OTC equity securities for compliance with NASD Conduct Rules 2320 and 3110(b).
- The registration status of 13 persons engaged in the firm's trading and market making activities for compliance with NASD registration requirements.
- Memoranda of 367 brokerage orders for compliance with NASD Conduct Rule 3110 and SEC Rules 17a-3 and 17a-4.
- Three hundred and sixty-five transactions reported to ACT for compliance with the rules applicable to trade reporting and ACT.
- Forty-five customer trade confirmations for compliance with SEC Rule 10b-10.
- Fifty orders reviewed for compliance with NASD Marketplace Rules 6954 and 6955.
- The firm's establishment and implementation of a supervisory system and written supervisory procedures during January 2004, for compliance with NASD Conduct Rule 3010.

In Trading and Market Making Surveillance Examination No. 20050002877, the staff reviewed the following trading activity of the firm for trade dates January 4 and/or 5, 2005, unless otherwise noted:

- Eighty-five customer and proprietary sale transactions for compliance with SEC Rules 200(g) and/or 203(b).
- Eighty customer and proprietary sale transactions for compliance with NASD Marketplace Rule 6130.
- Two short sales in CQS securities for compliance with SEC Rule 10a-1.
- Twenty limit orders for compliance with the limit order protection interpretation, best execution, NASD Marketplace Rule 6440, and SEC Rule 11Ac1-4.
- Ten institutional market orders for compliance with best execution, trade reporting, and ACT reporting.
- Twenty-eight limit and market orders and 52 related transactions executed in a principal or riskless principal capacity for compliance with the obligation to report trade capacity to ACT.
- Five orders for Nasdaq securities in soft dollar accounts and 72 related transactions reported during January 2005 for compliance with the SEC Section 28(e) safe harbor on soft dollar compensation and trade reporting rules.

- Two transactions in NNM or SmallCap securities reported with a .PRP modifier for compliance with NASD Conduct Rule 2320 and NASD Marketplace Rule 4632.
- Twenty-five orders in securities for which the firm was a market center for compliance with SEC Rule 11Ac1-5.
- Statistics published on the firm's order execution report for November 2004, for compliance with SEC Rule 11Ac1-5.
- Data published on the firm's quarterly order routing report for the fourth quarter of 2004, for compliance with SEC Rule 11Ac1-6.
- The firm's establishment and implementation of a regular and rigorous review of the execution quality of competing market centers for compliance with NASD Conduct Rules 2320 and 3010.
- Twenty-five customer transactions in OTCBB and/or OTC equity securities for compliance with NASD Conduct Rules 2320 and 3110(b).
- The registration status of 15 persons engaged in the firm's trading and market making activities for compliance with NASD registration requirements.
- Memoranda of 194 brokerage orders for compliance with NASD Conduct Rule 3110 and SEC Rules 17a-3 and 17a-4.
- Two hundred and seventy-three transactions reported to ACT or TRACS for compliance with the rules applicable to trade reporting and ACT.
- One hundred and forty-seven customer trade confirmations for compliance with SEC Rule 10b-10.
- Fifty orders reviewed for compliance with NASD Marketplace Rule 6955.
- The firm's establishment and implementation of a supervisory system and written supervisory procedures during January 2005, for compliance with NASD Conduct Rule 3010.

A. The firm hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD 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 NASD:

In connection with review number 20050002877:

1. On January 4 and 5, 2005, the firm failed (a) on seven occasions to provide written notification disclosing to its customers that the transaction was executed at an average price; (b) on 20 occasions when it acted as principal for its own account, failed to provide written notification disclosing to its customer that it was a market maker in each such security; and (c) on 28 occasions to provide written notification disclosing to its customer its correct capacity in the transaction.

2. The conduct described in paragraph one constitutes separate and distinct violations of SEC Rule 10b-10.

In connection with review numbers 20042000211 and 20050002877:

3. For the month of January 2004, the firm made available a report on the covered orders in national market system securities that it received for execution from any person. This report included incomplete information, in that, the firm failed to include two eligible orders in its published order execution statistics.
4. For the month of November 2004, the firm made available a report on the covered orders in national market system securities that it received for execution from any person. This report included incorrect information, in that, the firm failed to report correct information for one eligible order in its published order execution statistics.
5. For the month of January 2005, the firm made available a report on the covered orders in national market system securities that it received for execution from any person. This report included incomplete information, in that, the firm failed to include five eligible orders in its published order execution statistics.
6. The conduct described in paragraphs three through five constitutes separate and distinct violations of SEC Rule 11Ac1-5 (now SEC Rule 605). The firm failed to correct a programming error found in the 2005 review that was brought to its attention as a result of the 2004 review.
7. As of January 2004, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations concerning SEC Rule 10a-1 and ACT reporting (trades reported by other parties on the firm's behalf). Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) the identification of the person(s) responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented.

8. The firm failed to provide documentary evidence that it performed the supervisory reviews set forth in its written supervisory procedures concerning the requirements of Affirmative Determination during January 2004.
 9. As of January 2005, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations concerning Registration, Best Execution (Block Size and Not-Held), Three Quote Rule, Trade Reporting, Sale Transactions (Long/Short Determination, Long/Short Marking, Threshold Securities, Long/Short/Short Exempt, and SEC Rule 10a-1), Trading Halts, and Soft Dollar Accounts. Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) the identification of the person(s) responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented.
 10. The firm failed to provide documentary evidence that it performed the supervisory reviews set forth in its written supervisory procedures concerning the requirements of SEC Rule 11Ac1-6, Affirmative Determination, Soft Dollar Accounts (monitoring of research/safe harbor compliance), Books and Records, and Limit Order Protection during January 2005.
 11. The conduct described in paragraphs seven through 10 constitutes violations of NASD Conduct Rules 2110 and 3010.
- B. The firm also consents to the imposition, at a maximum, of the following sanctions:

A censure, a fine of \$35,000 (\$20,000 for the SEC Rule 11Ac1-5 violations; \$5,000 for the SEC Rule 10b-10 violations; and \$10,000 for the supervisory violations), and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraphs II. A. seven through 10 above.

In addition, within 30 business days of acceptance of this AWC by the NAC, a registered principal of the firm shall submit to the
**COMPLIANCE ASSISTANT, LEGAL SECTION,
MARKET REGULATION DEPARTMENT, 9509 KEY**

WEST AVENUE, ROCKVILLE, MD 20850, a signed, dated letter, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraphs II. A. seven through 10; and (3) the date the revised procedures were implemented.

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

III.

OTHER MATTERS

- A. The firm understands that it may attach to this AWC a Corrective Action Statement, which is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm understands that it 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 NASD, nor does it reflect the views of NASD or its staff.
- B. The firm agrees to pay any monetary sanctions imposed on it upon notice that this AWC has been accepted and that such payments are due and payable and has attached an Election of Payment form showing the method by which it proposes to pay any fine imposed.
- C. The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

The firm certifies that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce the firm to submit it.

Prudential Equity Group, LLC

10/25/2006
Date

By: Michael Shea
Name: Michael Shea
Title: CEO

Reviewed by:

Counsel for Respondent

Accepted by NASD:

11/30/06
Date

Thomas R. Gira
Thomas R. Gira
Executive Vice President
Department of Market Regulation

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

Attachment: Election of Payment Form