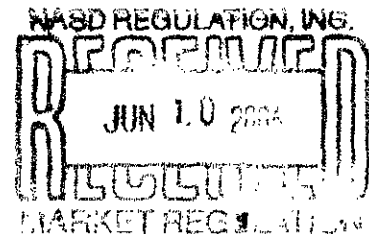


NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2005000172701

TO: Department of Market Regulation
NASD

RE: The Shemano Group, Inc., Respondent
(B/D No. 35528)
and
Gary Shemano, Respondent
(CRD No. 421322)



Pursuant to Rule 9216 of NASD Code of Procedure, The Shemano Group, Inc., ("The Shemano Group" or "firm") and Gary Shemano (collectively the "Respondents"), submit 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 Shemano Group or Gary Shemano alleging violations based on the same factual findings.

The Shemano Group and Gary Shemano understand 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 the 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 Respondents; and
3. If accepted:
 - a. This AWC will become part of the Respondents' permanent disciplinary record and may be considered in any future actions brought by the NASD or any other regulator against them;
 - b. This AWC will be made available through NASD's public disclosure program in response to public inquiries about the Respondents' disciplinary record;
 - 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 Respondents 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 Respondents' testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

The Shemano Group and Gary Shemano also understand that their experience in the securities industry and disciplinary history may be factors which will be considered in deciding whether to accept this AWC. That experience and relevant disciplinary history are as follows:

The Shemano Group became an NASD member in January 1994 and its registration remains in effect.

Gary Shemano entered the securities industry in 1970 as a registered representative with Birr Wilson & Co., Inc. Between 1970 and 1978 he was employed at three different NASD firms as a registered representative before joining Bear, Stearns and Co., in November 1978. In 1981, Gary Shemano became a limited partner at Bear Stearns. In 1983 he became a general partner. He remained there until 1990 when he moved to Bateman Eichler Securities, Inc. which later became Kemper Securities. In January 1994, he left Kemper Securities and established The Shemano Group where he is currently registered as a general securities principal. Gary Shemano is a 100% owner of The Shemano Group and has served as its Chairman since 1994.

On April 3, 2002, NASD censured and fined The Shemano Group \$5,000 and Gary Shemano \$2,500 for permitting Gary Shemano to supervise equity trading at The Shemano Group without a valid registration in effect.

In July 2005, the State of California ordered Shemano Capital Management, an affiliate of The Shemano Group, to pay a fine of \$24,000 and administrative costs of \$30,250 for its failure to pay a renewal fee as a registered investment advisor in 2001.

On November 16, 2001, NASD fined The Shemano Group \$2,500 for filing an inaccurate Form U-4 and amendment to Form U-4, as well as for misrepresentations made in filings with NASD, regarding the employment of an individual with The Shemano Group.

I.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Formal Complaint issued specifying the allegations against them;
- 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 Respondents 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.

The Respondents further specifically and voluntarily waive 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

- A. The Shemano Group and Gary Shemano 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 NASD, or to which NASD is a party, prior to a hearing and without adjudication of any issue of law or fact, to the entry of the following findings by NASD:

Sales of DDSU Shares in Violation of The Shemano Group's Supervisory

Sales of DDSU Shares in Violation of The Shemano Group's Supervisory Procedures

1. On April 24, 2003, Gary Shemano, on behalf of The Shemano Group, signed an investment banking agreement to raise funds for DDSU Technologies, Inc., a publicly-traded company ("DDSU"). At the same time, Gary Shemano entered into an agreement with a shareholder of DDSU to receive 50,000 unrestricted shares and 100,000 restricted shares of DDSU. The banking agreement made no reference to the receipt of these shares and the firm's compliance department was not notified of their receipt.
2. After signing the banking agreement, The Shemano Group began soliciting clients to invest in a series of PIPE transactions with DDSU, and the firm began preparing a research report on the company.¹ The Shemano Group's supervisory procedures required that its compliance department be notified upon the signing of a banking agreement and upon the initiation of research coverage on a company. The procedures further required that DDSU be placed on a restricted trading list and that the firm's compliance department monitor and approve any employee trading in DDSU. Contrary to these procedures, DDSU was not placed on the restricted trading list.
3. Between approximately May 22, 2003 and July 30, 2003, Gary Shemano sold, 32,500 DDSU shares out of the 50,000 unrestricted shares received from the DDSU shareholder. Gary Shemano received approximately \$198,000 in proceeds from the sale of these shares. The shares were sold while the Respondents were reviewing drafts of a pending research report on DDSU, investigating allegations of misconduct by DDSU management, and soliciting clients to invest in DDSU's PIPE offerings. The Shemano Group failed to prohibit or detect these sales in contravention of its procedures because the firm's compliance department did not monitor employee trading activity in DDSU.
4. As a result of the foregoing, the Respondents failed to establish, maintain and enforce a system of supervision and written supervisory procedures reasonably designed to prevent the misuse of material, nonpublic information and to achieve compliance with applicable securities laws and regulations and NASD rules.
5. The conduct described in paragraphs one through four constitutes violations of Section 15(f) of the Securities Exchange Act of 1934 and NASD Conduct Rules 3010 and 2110.

¹ A PIPE transaction, or a "private investment in a public company," is a private offering in which accredited investors purchase restricted securities in a public company.

Payments to a Barred Individual

6. From at least May 2003 through February 2004, the Shemano Group made payments to an individual that the Respondents knew was statutorily disqualified from association with any NASD member (the "Barred Consultant") for consulting services relating to the issuance of research reports and investment banking activities. The statutory bar resulted from the Barred Consultant's criminal conviction for lying to the SEC during an investigation. The Barred Consultant was paid for, among other things, drafting a business plan on DDSU, preparing two research reports and a press release on DDSU, and referring investors to The Shemano Group to participate in DDSU's PIPE transactions. The Shemano Group also failed to report its association with this disqualified individual to NASD.
7. The conduct described in paragraph six constitutes violations of Article III, Section 3 of NASD Bylaws, IM-8310 and NASD Conduct Rules 3070 and 2110.

DDSU Research Reports

8. In May 2003, a research analyst at The Shemano Group ("Research Analyst") began drafting a research report on DDSU. The Research Analyst prepared a draft of the report, which included a series of disclosures identifying material risks associated with an investment in DDSU. He provided a copy of the report to Gary Shemano and then met with him to discuss the content of the report.
9. In June 2003, the Research Analyst assigned to DDSU resigned his position with the firm. The Shemano Group then paid the Barred Consultant to complete the report. Prior to completion of the report, the material risk disclosures contained in the Research Analyst's original report were deleted. On July 28, 2003 The Shemano Group published the DDSU report written by the Barred Consultant. The final report failed to include the risk factors identified in the Research Analyst's draft report. It also failed to disclose that: the author of the report had been barred from the securities industry for lying to the SEC; that Gary Shemano had received 50,000 unrestricted shares of DDSU stock from a DDSU shareholder and had sold 32,500 of those shares in the months preceding the report; and that the revenue projections contained in the report were prepared by DDSU's management.
10. On November 18, 2003, The Shemano Group issued a second research report on DDSU written by the Barred Consultant which again failed to disclose the material facts described above.

11. The conduct described in paragraphs 8 and 9 constitute violations of NASD Conduct Rules 2210 and 2110.
 12. The Respondents failed to reasonably supervise the firm's Research Department, Investment Banking Department, and the Barred Consultant in connection with their activities relating to and the issuance of the research reports on DDSU.
 13. The conduct described in paragraphs 8 through 12 constitutes violations of NASD Conduct Rules 3010 and 2110.
- B. The Shemano Group and Gary Shemano consent to the imposition, at a maximum, of the following sanctions:
1. The Shemano Group and Gary Shemano are fined, jointly and severally, \$425,000, which takes into consideration the amount of financial benefit received by the Respondents. The fine shall be payable in eight equal payments, once each quarter over a period of two years.
 2. Gary Shemano is suspended from association with any NASD member in all capacities for 90 calendar days.
 3. The Shemano Group and Gary Shemano are permanently barred from publishing research reports, as that term is defined under NASD Conduct Rule 2711(a).
 4. The Shemano Group shall:
 - a. Retain, within 90 days of the date of Notice of Acceptance of this AWC, an Independent Consultant, not unacceptable to NASD staff, to conduct a comprehensive review of the adequacy of the Firm's policies, systems and procedures (written and otherwise) and training relating to:
 - Supervision of investment banking transactions, including PIPEs;
 - Section 15(f) of the Securities Exchange Act of 1934;
 - Insider trading/Chinese wall procedures;
 - Restricted lists and watch lists;
 - Private securities transactions by employees;
 - Conflicts of supervisors engaged in other functions at the firm;
 - Conflicts of compliance officers engaged in other functions at the firm;
 - Use of corporate or executive titles by non-executive employees;

- Association of, or payments to statutorily disqualified persons;
 - Training and qualifications of compliance personnel;
 - Training and qualifications of supervisory personnel;
 - Review and maintenance of electronic communications;
 - Maintenance of current written supervisory procedures and clear delineation of supervisory assignments and responsibilities; and
 - Documentation and retention of records of periodic supervisory reviews conducted by the firm to determine whether the firm's procedures are being followed and enforced.
- b. Exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant.
- c. Cooperate with the Independent Consultant in all respects, including by providing staff support. The Shemano Group shall place no restrictions on the Independent Consultant's communications with NASD staff and, upon request, shall make available to NASD staff any and all communications between the Independent Consultant and the Firm and documents reviewed by the Independent Consultant in connection with his or her engagement. Once retained, The Shemano Group shall not terminate the relationship with the Independent Consultant without the NASD staff's written approval; The Shemano Group shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney client privilege or other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports or documents to the NASD.
- d. At the conclusion of the review, which shall be no more than 120 days after the date of Notice of Acceptance of this AWC, require the Independent Consultant to submit to the Firm and NASD staff a Written Report. The Written Report shall address, at a minimum, (i) the adequacy of the Firm's policies, systems, procedures and training relating to the categories described above; (ii) a description of the review performed and the conclusions reached, and (iii) the Independent Consultant's recommendations for modifications and additions to the Firm's policies, systems, procedures and training; and
- e. Require the Independent Consultant to enter into a written agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter in to any other employment,

consultant, attorney-client, auditing or other professional relationship with The Shemano Group, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any firm with which the Independent Consultant is affiliated in performing his or her duties pursuant to this AWC shall not, without prior written consent of the NASD staff, enter in to any employment, consultant, attorney-client, auditing or other professional relationship with The Shemano Group or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

1. Within 60 days after delivery of the Written Report, The Shemano Group shall adopt and implement the recommendations of the Independent Consultant or, if it determines that a recommendation is unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. The Firm shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and the NASD staff. Within 30 days of receipt of any proposed alternative procedure, the Independent Consultant shall: (i) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide the Firm with a written decision reflecting his or her determination. The Firm will abide by the Independent Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant.
2. Within 30 days after the issuance of the later of the Independent Consultant's Written Report or written determination regarding alternative procedures (if any), The Shemano Group shall provide the NASD staff with a written implementation report, certified by an officer of The Shemano Group, attesting to, containing documentation of, and setting forth the details of the Firm's implementation of the Independent Consultant's recommendations.
3. Upon written request showing good cause, the NASD staff may extend any of the procedural dates set forth above.

The sanctions imposed herein shall be effective on a date set by the Association staff. Pursuant to IM-8310-2(f), a bar or expulsion shall become effective upon approval or acceptance of this AWC by the NAC.

III.

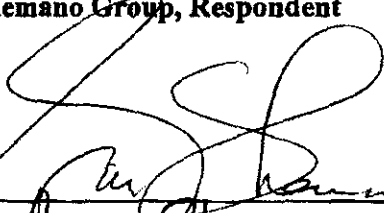
OTHER MATTERS

- A. The Respondents understand that they may attach a Corrective Action Statement to this AWC which is a statement of demonstrable corrective steps taken to prevent future misconduct. The Respondents understand that they 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 Respondents agree to pay any monetary sanctions imposed on them upon notice that this AWC has been accepted and upon the terms and conditions set forth in this AWC.
- C. The Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.
- D. Respondent Gary Shemano understands that if barred or suspended from association with any NASD 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, Gary Shemano may not be associated with any NASD member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension. (See NASD Rule 8310 and IM-8310-1.)

The Respondents certify that they have read and understand all of the provisions of this AWC and have 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 them to submit it.

The Shemano Group, Respondent

6/09/06
Date

By: 
Name: Gary Shemano
Title: Chairman, CEO

Gary Shemano, Respondent

6/09/06
Date

Reviewed by: 
Counsel for Respondents

Accepted by NASD:

6/12/06
Date


Cameron K. Funkhouser
Senior Vice President

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