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**NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. ##**

20050003058-01

**TO: Department of Market Regulation
NASD**

**RE: Trillium Trading LLC, Respondent
Broker-Dealer
CRD No. 120064**

Pursuant to Rule 9216 of NASD Code of Procedure, Trillium Trading LLC (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 the firm's 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-8310-3; 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,

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denying, directly or indirectly, any finding 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 that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

The firm has been a member of NASD since October 30, 2002 and its registration remains in effect. The firm has no relevant disciplinary history.

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 the firm;
- 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 20050003058 (formerly MRD200449453), the staff conducted a Trading and Market Making Surveillance ("TMMS") Examination of the firm. The staff reviewed the following items:¹

- 50 sales transactions, for compliance with NASD Rule 3370;
- seven short sales in Nasdaq National Market ("NNM") securities, for compliance with NASD Rule 3350;
- ten persons engaged in the firm's trading and market making activities, for compliance with NASD registration rules;
- 676 order/trade records prepared and maintained in connection with the above samples, for general compliance with NASD Rule 3110 and SEC Rules 17a-3 and 17a-4;
- 72 trades reported to Automated Confirmation Transaction Service ("ACT") or Trade Reporting and Comparison Service ("TRACS") in connection with the above samples, for general compliance with NASD trade reporting and ACT rules; and
- the firm's establishment and implementation of a supervisory system and written supervisory procedures ("WSPs"), based on the WSPs in effect during November 2004, for compliance with NASD 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:

1. The firm executed three short sale transactions in certain securities, all of which were Nasdaq National Market securities, at or below the current inside bid when the current inside bid was below the preceding inside bid in the security. The conduct described in this paragraph constitutes separate and distinct violations of NASD Conduct Rule 3350.
2. The firm effected 14 short sales in certain securities for the firm's proprietary accounts and failed to make/annotate an affirmative determination that the firm could borrow the securities or otherwise provide for delivery of the securities by settlement date. The conduct described in this paragraph constitutes separate and distinct violations of NASD Conduct Rule 3370.

¹ Unless otherwise noted, all items reviewed are from trade date November 9, 2004.

3. The firm failed to report to ACT the correct symbol indicating whether the transaction was a buy, sell, sell short, sell short exempt or cross for 11 transactions in eligible securities. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6130(d).
4. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD, concerning IM-2110-5, Regulation SHO, information barriers (also known as "Chinese Walls"), and books and records. 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/or (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. The firm failed to provide documentary evidence that it performed the supervisory review set forth in its written supervisory procedures concerning IM-2110-5, Regulation SHO, information barriers, and books and records. The conduct described in this paragraph constitutes a violation 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 \$15,000 (consisting of \$10,000 for short sale violations and \$5,000 for supervision), and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph four. Within 30 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent 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 this paragraph; 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 a Corrective Action Statement to this AWC that 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 the firm proposes to pay any fine imposed.
- C. The firm specifically and voluntarily waives any right to claim that the firm 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.

05/24/2007
Date

Respondent
Trillium Trading LLC

By: [Signature]

Name: [Signature]

Title: [Signature]

Reviewed by:

[Signature]
Counsel for Respondent

Accepted by NASD:

6/15/07
Date

[Signature]
Thomas R. Gira
Executive Vice President
Department of Market Regulation

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