

RECEIVED

2007 MAY -3 A 7:25

REGISTRATION & DISCLOSURE

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
20050003265-01

TO: Department of Market Regulation
NASD

RE: Basic Investors Inc., Respondent
Broker/Dealer
CRD No. 1187

Pursuant to Rule 9216 of NASD Code of Procedure, Basic Investors Inc. ("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

000048123 2007

- 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 December 13, 1956, and its registration remains in effect. The firm has the following relevant disciplinary history:

- On April 22, 2005, an AWC was accepted in which the firm was censured and fined \$5,000 for violations of NASD Conduct Rule 2110 and NASD Marketplace Rule 6620(a).

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. 20050003265, the staff reviewed the following trading activity of the firm for trade dates January 3 to 14, 2005, unless otherwise noted:

- Thirty-five customer sale transactions for compliance with NASD Conduct Rules 3110 and 3370, and SEC Rules 10a-1, 200(g), and 203(b).
- Forty proprietary sale transactions for compliance with NASD Conduct Rule 3370, and SEC Rules 10a-1 and 203(b).
- Ninety-one sales transactions for compliance with NASD Marketplace Rule 6130.
- One short sale in a Nasdaq National Market ("NNM") security for compliance with NASD Conduct Rule 3350.
- Eighteen short sales in Consolidated Quotations Service ("CQS") securities for compliance with SEC Rule 10a-1.
- Fifty-eight limit orders in market making securities for compliance with the limit order protection interpretation, best execution, NASD Marketplace Rule 6440, and SEC Rule 11Ac1-4 (now SEC Rule 604).
- Eleven market orders executed as principal for compliance with NASD Conduct Rule 2320.
- Thirty-eight limit and market orders executed in a principal or riskless principal capacity for compliance with capacity reporting obligations under NASD trade reporting and trade input rules.
- Four transactions in NNM or SmallCap securities reported with a .PRP modifier for compliance with NASD Conduct Rule 2320 and NASD Marketplace Rule 4632.
- Statistics published on the firm's order execution reports for February through April 2005, for compliance with SEC Rule 11Ac1-5 (now SEC Rule 605).
- Data published on the firm's quarterly order routing report for January 2005, for compliance with SEC Rule 11Ac1-6 (now SEC Rule 606).
- The firm's establishment and implementation of a regular and rigorous review during January 2005, of the execution quality of orders sent to other market centers for compliance with NASD Conduct Rules 2320 and 3010.
- Fifty eligible orders reviewed for compliance with NASD Marketplace Rule 6955.

- Twenty-five customer transactions in OTCBB and OTC equity securities for compliance with NASD Conduct Rules 2320 and 3110(b).
- The registration status of five persons engaged in the firm's trading and market making activities for compliance with NASD registration requirements.
- Two hundred and twenty firm records for compliance with NASD Conduct Rule 3110 and SEC Rules 17a-3 and 17a-4.
- Two hundred and fifty-six transactions reported to the Nasdaq Market Center ("NMC") for compliance with NASD rules applicable to trade reporting and trade input.
- Thirty-four customer trade confirmations for compliance with SEC Rule 10b-10.
- The firm's establishment and implementation of a supervisory system and written supervisory procedures during January 2005, for compliance with NASD Conduct Rule 3010.

In Trading and Market Making Surveillance Examination No. 20050035835, the staff reviewed the following trading activity of the firm for trade dates November 14 to 18, 2005, unless otherwise noted:

- Thirty-one customer and proprietary sale transactions for compliance with SEC Rules 200(g) and 203(b).
- Seventy-eight customer and proprietary sale transactions for compliance with NASD Marketplace Rule 6130.
- Three cancelled transactions for compliance with NASD Marketplace Rules 4632(g), 4642(g), 6130(f), 6420(f), and 6620(f).
- Five limit orders executed as principal for compliance with the limit order protection interpretation, best execution, NASD Marketplace Rules 6440 and 6541, and SEC Rules 602 and 604.
- Twenty-seven limit and market orders and 43 transactions executed in a principal or riskless principal capacity for compliance with capacity reporting obligations under NASD trade reporting and trade input rules.
- Nine orders in securities for which the firm was a market center for compliance with the order size/type classification requirements of SEC Rule 605.
- Statistics published on the firm's monthly order execution report for October 2004, for compliance with SEC Rule 605.
- Data published on the firm's quarterly order routing report for the fourth quarter of 2004, for compliance with SEC Rule 606.
- The firm's establishment and implementation of a regular and rigorous review during November 2005, of the execution quality of orders sent to other market centers and internalized for compliance with NASD Conduct Rules 2320 and 3010.

- Twenty-five customer transactions in OTCBB and OTC equity securities for compliance with NASD Conduct Rules 2320 and 3110(b).
- The registration status of eight persons engaged in the firm's trading and market making activities for compliance with NASD registration requirements.
- Twenty-five orders in NNM or SmallCap securities submitted to OATS for compliance with NASD Marketplace Rule 6955.
- Eighty-seven firm records for compliance with NASD Conduct Rule 3110 and SEC Rules 17a-3 and 17a-4.
- Ninety-eight transactions reported to the NMC or TRACS for compliance with NASD rules applicable to trade reporting and trade input.
- Twenty-five customer trade confirmations for compliance with SEC Rule 10b-10.
- The firm's establishment and implementation of a supervisory system and written supervisory procedures during November 2005, for compliance with NASD Conduct Rule 3010.

In Market Regulation Review No. 20050021185, the staff reviewed the firm's quotation activity in the Pink Sheets L.L.C. ("Pink Sheets") on July 18, 2005, for compliance with SEC Rule 15c2-11, NASD Marketplace Rule 6740 (now NASD Marketplace Rule 6640), and NASD Conduct Rules 2110 and 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 20050003265:

1. On six occasions from January 3 through 14, 2005, the firm failed to display immediately six customer limit orders in listed securities in its public quotation, when each such order was at a price that would have improved the firm's bid or offer in each such security; or when the order was priced equal to the firm's bid or offer and the national best bid or offer for each such security, and the size of the order represented more than a *de minimis* change in relation to the size associated with the firm's bid or offer in each such security. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 11Ac1-4.

In connection with review number 20050035835:

2. From November 14 to 18, 2005, the firm incorrectly reported to the NMC the second leg of: (a) two "riskless" principal transaction(s) in NNM securities; (b) seven "riskless" principal transaction(s) in SmallCap securities; and (c) 30 "riskless" principal transaction(s) in OTC securities because it incorrectly designated the capacity of such transaction(s) as "principal." The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rules 4632, 4642, and 6620.

In connection with review number 20050021185:

3. On July 18, 2005, the firm published 14 quotations for 13 OTC Equity Securities or Non-Exchange-Listed Securities, or, directly or indirectly, submitted such quotations for publication, in a quotation medium, that is, the Pink Sheets, and: (i) did not have in its records the documentation required by SEC Rule 15c2-11(a) ("Paragraph (a) information"); (ii) did not have a reasonable basis under the circumstances for believing that the Paragraph (a) information was accurate in all material respects; and (iii) did not have a reasonable basis under the circumstances for believing that the sources of the Paragraph (a) information were reliable. The quotations did not represent a customer's indication of unsolicited interest. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 15c2-11 and NASD Conduct Rule 2110.
4. For each quotation described in paragraph three, the firm failed to file a Form 211 with NASD at least three business days before its quotations were published or displayed in a quotation medium. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6740 and NASD Conduct Rule 2110.

In connection with review numbers 20050035835 and 20050021185:

5. 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 compliance with Disclosure of Order Execution Information, Riskless Principal Trade Reporting, Sales in Threshold Securities, Books and Records, and the Quotation of Non-Exchange-Listed Securities. Specifically, the firm's supervisory system did not include written supervisory procedures providing reviews for

compliance with applicable rules and regulations that included: (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. The conduct described in this paragraph constitutes violations of NASD Conduct Rules 2110 and 3010.

6. The firm failed to provide documentary evidence that it performed the supervisory reviews set forth in its written supervisory procedures concerning the requirements of Bid Test Compliance during November 2005. The conduct described in this paragraph 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 \$25,000 (\$5,000 for the Limit Order Display violations; \$10,000 for the Trade Reporting violations; \$5,000 for the Quotation of Non-Exchange-Listed Securities violations; and \$5,000 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. 5 and 6 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. 5 and 6; 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.

Basic Investors Inc.

3/23/2007
Date

By: Th La R
Name: THOMAS LAUNDRIE
Title: PRESIDENT

Reviewed by:

Chas M. O'Rourke
Counsel for Respondent
Charles M. O'Rourke, Esq.

Accepted by NASD:

5/1/07
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