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REGISTRATION & DISCLOSURE

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20050005925-01**

TO: Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

RE: Finance 500, Inc., Respondent
Broker-Dealer
CRD Number 12981

Pursuant to NASD Rule 9216 of the FINRA Code of Procedure, Finance 500, 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 below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- 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 FINRA, or to which FINRA 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 FINRA:

BACKGROUND

The firm has been a member of FINRA (formerly NASD) since December 14, 1982 and its registration remains in effect. The firm has the following relevant disciplinary history:

- On June 1, 2005, an AWC became final in which the firm was censured and fined \$7,000 for violating NASD Rules 2110, 3010 and 6955.
- On March 11, 2004, an AWC became final in which the firm was censured and fined \$8,000 for violating NASD Rules 2110, 3010 and 6955.

FACTS

For the period January 26, 2005 through March 16, 2006, the staff of NASD's Department of Market Regulation ("the staff") conducted a review and two examinations of the firm of varying scope and duration as set forth in Appendix 1. This matter is a result of the review and examinations.

20050005925

1. The firm failed to report to Automated Confirmation Transaction Service ("ACT" now the Nasdaq Market Center "NMC") the correct symbol indicating whether the transaction was a buy, sell, sell short, sell short exempt or cross for 19 transactions in reportable securities. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130(d)(6).
2. 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: disclosure of order routing information; limit order protection; best execution; three-quote rule; anti-intimidation and coordination; marking order tickets long, short, or short- exempt ; affirmative determinations; ACT trade reporting; threshold securities; ACT short sale reporting; and OATS inter-firm routed order ID matching. Specifically, the firm's supervisory system did not include written supervisory procedures providing for one or more of the following: (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 a violation of NASD Rules 2110 and 3010.

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3. On July 18, 2005 the firm directly submitted 11 quotations for publication, in a quotation medium, 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 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 the firm's quotations were published or displayed in a quotation medium. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 2110 and NASD Rule 6640.
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 quotations for publication, in the Pink Sheets. Specifically, the firm's supervisory system did not include written supervisory

procedures providing for reviews for compliance with pink sheet quotations that included: (1) a statement of the supervisory step(s) to be taken by the identified person(s) responsible for supervision with respect to the applicable rules; (2) a statement as to how often such person(s) should take such step(s); and (3) 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 a violation of NASD Rules 2110 and 3010.

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6. 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 42 transactions in Reportable Securities. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130(d)(6).
7. The firm failed to report to ACT the correct symbol indicating whether the firm executed 28 transactions in Reportable Securities in a principal or agency capacity. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130(d)(7).
8. During the review period, the firm transmitted to OATS 16 reports that contained inaccurate, incomplete or improperly formatted data. Specifically, the reports contained inaccurate sale indicators (buy, sell, sell short, sell short exempt), improperly formatted order route and cancel reports and omitted data for proprietary orders in non-market making securities. These inaccurate, incomplete and improperly formatted reports represented approximately 32 percent of the sample of reports reviewed in the TMMS examination that the firm transmitted during the review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).
9. The firm on four occasions when it acted as principal for its own account failed to: (1) provide written notification disclosing to its customer that it was a market maker in each such security; (2) provide written notification disclosing to its customer its correct capacity in the transaction; and (3) disclose a commission equivalent instead of a commission. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.
10. The firm failed to show the receipt time on the memorandum of 13 brokerage orders and the correct capacity of the firm on the memorandum of one brokerage order. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 17a-3 and NASD Rule 3110.
11. During the review period, the firm executed 198 short sale orders and failed to properly mark the order tickets as short for those orders. The firm also executed three long sales and improperly marked the order tickets for these orders as short sale

exempt. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 200(g) of Regulation SHO.

12. The firm: (1) failed to make a profit sharing disclosure for internalized order flow on its vendor and firm generated SEC Rule 606 Reports; (2) failed to disclose that the firm publishes multiple SEC Rule 606 Reports; (3) failed to disclose, on each SEC Rule 606 Report, the identity of the other SEC Rule 606 Report; (4) had SEC Rule 606 Reports that did not clearly explain the orders for which they applied; and (5) failed to provide a hyperlink on its website to its vendor's internet site where the firm had its SEC Rule 606 Report. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 606 of Regulation NMS.
13. 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 disclosure of order routing and execution information; trading in front of customer orders; NASD trade-through rules; marking orders long, short, or short-exempt; threshold securities; short-sale indicator reporting; short sales on a down bid; locked and crossed markets; trading through quotes; multiple quotations in different systems for the same security and OATS. Specifically, the firm's supervisory system did not include written supervisory procedures providing for one or more of the following: (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 a violation of NASD Rules 2110 and 3010.

B. The firm also consents to the imposition of the following sanctions:

A censure, a fine of \$42,000 (consisting of \$5,000 for the ACT reporting violations; \$10,000 for the OATS violations; \$2,000 for the SEC Rule 10b-10 violations, \$5,000 for the SEC Rule 15c2-11 and NASD Rule 6640 (formerly NASD Rule 6740) violations; \$5,000 for the SEC Rule 17a-3 and NASD Rule 3110 violations, \$10,000 for the SEC Rule 606 violations and \$5,000 for the supervision violations) and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraphs: two, five and 13. 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 paragraphs: two, five and 13; and (3) the date the revised procedures were implemented.

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

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under FINRA'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 National Adjudicatory Council ("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 NASD Rule 9143 or the separation of functions prohibitions of NASD 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.

III.

OTHER MATTERS

The firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-3; and
 - 4. 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 finding in this AWC or create the impression that the AWC is without factual basis. The firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. The firm 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 FINRA, nor does it reflect the views of FINRA or its staff.

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; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

8-29-07
Date

Respondent
Finance 500, Inc.

By: RMH/LS

Name: Robert L. Hicks

Title: President/CEO

Reviewed by:

Attorney Name
Counsel for Respondent

Accepted by FINRA:

9/27/07
Date

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

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

Appendix 1

Finance 500, Inc.

In connection with the following review and examinations, the staff reviewed the firm's compliance with:

20050005925, the 2005 Trading and Market Making Examination ("TMMS") of the firm, the staff reviewed the following for trade dates January 26 and 27, 2005:

- 16 customer and proprietary sale transactions for compliance with SEC Rules 200(g) and/or 203(b);
- 61 customer and proprietary sales for compliance with NASD Rule 6130;
- 34 limit orders executed as principal for compliance with NASD Rules 2110 (and IM-2110-2), 6440, 6541 and 2320, and SEC Rule 11Ac1-1 (now SEC Rule 602) and 11Ac1-4 (now SEC Rule 604);
- seven limit and market orders and 16 trades executed in a principal or riskless principal capacity, for compliance with capacity reporting under NASD Trade Reporting and Automated Confirmation Transaction Service ("ACT") Rules (now the Nasdaq Market Center "NMC");
- orders for NASDAQ securities in soft dollar accounts for compliance with trade reporting rules and the safe harbor limitations of SEC Section 28(e);
- trades reported and modified through a mixed capacity regulatory report, for compliance with NASD Rule 6130;
- orders in securities for which the firm was a market center for compliance with the order size/type classification requirements of SEC Rule 11Ac1-5 (now SEC Rule 605);
- security/size/order data statistics published on the firm's monthly order execution report for compliance with SEC Rule 605;
- data published on the firm's quarterly order routing report for compliance with SEC Rule 11Ac1-6 (now SEC Rule 606);
- 25 customer transactions in over-the-counter bulletin board ("OTCBB") and over-the-counter ("OTC") equity securities for compliance with NASD Rules 2320 and 3110(b);
- five persons engaged in the firm's trading and market making activities, for compliance with NASD Registration Rules;
- 16 orders in NASDAQ submitted to the Order Audit Trail System ("OATS"), for compliance with NASD Rule 6955;
- 92 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;
- 192 trades reported to the NMC or the Trade Reporting and Comparison Service ("TRACS") in connection with the above samples for general compliance with NASD Trade Reporting and NMC Rules;
- 16 customer trade confirmations reviewed in connection with the above samples, for compliance with SEC Rule 10b-10;

Appendix 1 (continued)

- the firm's establishment and implementation of regular & rigorous reviews of the execution quality of orders sent to other market centers and internalized, for compliance with NASD Rules 2320 and 3010; and
- the firm's establishment and implementation of a supervisory system and written supervisory procedures, for compliance with NASD Rule 3010.

20050021277, SEC Rule 15c2-11 and NASD Rule 6740 and 2110 for trade date July 18, 2005.

20060047573, the 2006 TMMS Examination of the firm, the staff reviewed the following for trade dates March 15 and 16, 2006:

- 15 customer sale transactions and 40 proprietary sale transactions for compliance with NASD Rules 3350 and 6130, SEC Regulation SHO Rule 200(g) and Rule 203;
- four cancelled and three busted executions that resulted in the staff reviewing seven trade reports for compliance with NASD Rules 3110, 4632, 4642, 6420 and 6620;
- three limit orders and eight market orders for compliance with NASD Rules 2110, 2111 and IM-2110-2;
- 75 orders for compliance with NASD Rule 2320;
- 86 orders and 148 trade reports for compliance with NASD Rule 6130;
- nine order type/size categories handled by the firm during the month of January 2006 for compliance with SEC Rule 605;
- the firm's report on routing of customer orders for the quarter ending March 2006 for compliance with SEC Rule 606;
- the firm's report on routing of customer orders for the quarter ending December 2005 was reviewed for compliance with SEC Rule 606;
- the firm's written supervisory procedures including procedures related to the regular and rigorous assessment of the quality of executions received on orders sent to other members, alternative trading systems, or exchanges, in effect March 2006, for compliance with NASD Rule 3010;
- the firm's registration of trading area personnel for compliance with NASD Rules 1021 and 1031;
- 50 orders eligible for OATS reporting for compliance with NASD Rule 6955;
- 10 customer confirmations for compliance with SEC Rule 10b-10; and
- 161 order tickets and 397 executions for compliance with NASD Rule 3110 and SEC Rules 17a-3 and 17a-4.



August 28, 2007

VIA EMAIL & OVERNIGHT MAIL

Mr. Carl D. Bins
Department of Market Regulation
9509 Key West Avenue
Rockville, Maryland 20850

RE: Finance 500, Inc., Respondent
CRD#: 12981

Dear Mr. Bins,

This **CORRECTIVE ACTION STATEMENT** is submitted by the Respondent. It does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD, or its staff.

20050005925

2.) Finance 500 has updated the Written Supervisory Policies and Procedures Manual in order to provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD concerning: disclosure of order routing information, limit order protection, best execution, three-quote rule, anti-intimidation and coordination, marking order tickets long, short, or short-exempt, affirmative determinations, ACT trade reporting, threshold securities, ACT short sale reporting, and OATS inter-firm routed order ID matching.

3.) Finance 500 has implemented the following procedures:

Daily and Intraday: The OSJ manager at each location will review all the quotations in non-piggyback qualified issues on the Pink Sheets website at least once during the trading day and compare those with any unsolicited orders his office may have. A supervisory log will be maintained to document each review conducted.

Weekly: The head of the trading department at the main office will review the weekly email from Pink Sheets showing quotations in non-piggyback qualified issues, and compare those with the firm's orders.

The head of the trading department will also "spot check" firm wide compliance with this rule by reviewing the Pink Sheets website for all quotations in non-piggyback qualified issues and compare those with any unsolicited orders the firm may have. Additionally, a log will be maintained to evidence this review.

4.) See Item #3 above.

20050021277

5.) Finance 500 has updated the Written Supervisory Policies and Procedures Manual in order to provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD concerning quotations for publication in the Pink Sheets.

20060047573

6.) Due to the issue with the vendor (as detailed in item #6 of the Mitigation Statement), Paul Savage, Head of Trading, conducted a compliance meeting with the Firm's traders on May 20, 2006. At that meeting, the traders were instructed not to rely on the vendor to execute orders, but instead, to manually verify the Firm's positions before reporting executions.

A second compliance meeting with the Firm's traders was held on December 1, 2006 in order to reiterate and ensure that the instructions from the May 20, 2006, compliance meeting were being followed.

7.) At the same compliance meeting referenced above in May 2006, traders were instructed to segregate executions that were executed at the average price and report those transactions separately as riskless principal transactions.

A second compliance meeting with the Firm's traders was held on December 1, 2006 in order to reiterate and ensure that the instructions from the May 20, 2006, compliance meeting were being followed.

8.) At the same compliance meeting referenced above in May 2006, the firm's traders were advised not to rely on the vendor and instructed to ensure any orders in which Finance 500 does not make a market are executed through Bloomberg's Agency Book and are thereby reported correctly.

A second compliance meeting with the Firm's traders was held on December 1, 2006 in order to reiterate and ensure that the instructions from the May 20, 2006, compliance meeting were being followed.

9.) This issue was immediately remedied during the course of the examination and the examiner was given the updated confirmation.

10.) At the same compliance meeting referenced above in May 2006, the firm's traders were instructed to use an "as of" time.

A second compliance meeting with the Firm's traders was held on December 1, 2006 in order to reiterate and ensure that the instructions from the May 20, 2006, compliance meeting were being followed.

11.) As described in Item #6 above, Paul Savage, Head of Trading, conducted a compliance meeting with the Firm's traders on May 20, 2006. At that meeting, the traders were instructed not to rely on the vendor to execute orders, but instead, to manually verify the Firm's positions before reporting executions.

A second compliance meeting with the Firm's traders was held on December 1, 2006 in order to reiterate and ensure that the instructions from the May 20, 2006, compliance meeting were being followed.

12.) This issue was immediately remedied during the course of the examination and subsequently on October 11, 2006 via email to Greg Edmondson.

13.) Finance 500 has updated the Written Supervisory Policies and Procedures Manual in order to provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD concerning: disclosure of order routing and execution information, trading in front of customer orders, NASD trade-through rules, marking orders long, short, or short-exempt, threshold securities, short-sale indicator reporting, short-sales on a down bid, locked and crossed markets, trading through quotes, multiple quotations in different systems for the same security and OATS.

If you have any questions, please feel free to contact me or Monique Guvlekjian, Compliance Officer at (949) 253-4000, ext. 6803.

Sincerely,



Robert L. Hicks
President/CEO

RLH:mdg