

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2005001028302

TO: Department of Enforcement
NASD

RE: First Montauk Securities Corporation
(CRD No. 13755)

Pursuant to Rule 9216 of NASD Code of Procedure, First Montauk Securities Corporation ("Member") 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 Member alleging violations based on the same factual findings.

The Member 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 Enforcement 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 Member; and
3. If accepted:
 - a. this AWC will become part of the Member's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against it;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about the Member'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-8310-2; and
 - d. The Member 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. Nothing in this provision affects the Member'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 Member 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:

First Montauk Securities Corporation first became associated with the SEC on July 27, 1983 and became an NASD member on April 26, 1984. First Montauk's membership is currently active. The Member engages in a general securities business.

First Montauk's relevant disciplinary history for the past five years is as follows:

- 9/29/06 The New Jersey Bureau of Securities fined the Member \$475,000 for employing an unregistered agent who sold securities to New Jersey customers through the assistance of another agent. This constituted the creation of false records and failure to supervise. Additionally, the products sold to customers were declined in value, and the Member offered incentives to its agents to sell the product without disclosing material information and avoided any open market price corrections which artificially inflated the product's price. The Member was mandated to hire an independent consultant to review the firm's supervision of branch offices, suitability standards and monitoring of sales agent activities.
- 1/24/06 The Member submitted an AWC to NASD to settle allegations of an inadequate AML program. Additionally, the Member sent inaccurate trade confirmations, had trade tickets that had illegible or inaccurate time stamps, and incorrectly reported municipal trades. The Member's supervisory system was not reasonably designed to achieve compliance with securities laws and regulations regarding TRACE reporting. The Member was censured and fined \$50,000. (Case No. E9B2005005003).
- 3/26/04 The Member submitted an AWC to NASD to settle allegations that it issued research reports that failed to disclose material facts regarding a securities issuer. The research reports made exaggerated, unwarranted and misleading statements about the issuer. These reports were not based on principles of fair dealing and good faith and did not provide a sound basis for evaluating facts regarding the issuer. The Member did not disclose recent compensation that it received from the issuer. The Member's failure to adopt and implement supervisory procedures to ensure that research reports issued by the firm or prepared by associated persons not employed

by the firm complied with applicable securities laws and regulations. Furthermore, the firm's supervisory procedures failed to set forth procedures for the review of research reports prepared by outside consultants. The Member was censured, fined \$75,000 and suspended from issuing research reports for 3 months. Furthermore, the Member agreed to hire an independent consultant to review and make recommendations regarding the Member's supervisory procedures concerning the research reports. (Case No. CAF040026).

3/9/04 The Member submitted an AWC to NASD to settle allegations that it failed to promptly amend the Form U4s for 13 registered reps after becoming aware of information that triggered an obligation to amend. Furthermore, the member failed to promptly amend the Form U5s for 4 registered reps after becoming aware of information that triggered an obligation to amend. Additionally, the Member failed to report 4 arbitration awards/settlements against it, and failed to timely report 7 other arbitrations awards/settlements. The Member's supervisory procedures were not reasonably designed to achieve compliance with the relevant securities laws and regulations, and failed to identify the responsible principals. The Member was censured and fined \$45,000. (Case No. C3A040014).

8/14/02 The Member submitted an AWC to NASD to settle allegations that it failed to establish and enforce written supervisory procedures regarding its mutual fund business. The Member was censured, fined \$45,000 and was required to update its written supervisory procedures. (Case No. C9B020053).

I. WAIVER OF PROCEDURAL RIGHTS

The Member 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 Member 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 Member 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 Member 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:

At all times relevant to this AWC, First Montauk had written supervisory procedures regarding customer addresses and customer address change requests. The written supervisory procedures required that all customer requests to change addresses of record be reviewed to ensure that the new address is not the address of a branch office or the residence of a registered representative. First Montauk's written supervisory procedures required that any customer request to change an address to a post office box must be approved by First Montauk's legal and compliance departments.

Between the approximate dates of November 25, 2003 and February 10, 2005, one of First Montauk's back office employees circumvented its written supervisory procedures regarding customer mailing addresses and address changes. One of the firm's registered representatives convinced this back office clerk to change customer addresses to post office boxes and to the registered representative's home address in violation of the firm's written supervisory procedures. First Montauk's failure to enforce its written supervisory procedures violates NASD Conduct Rules 2110 and 3010.

- B. The Member also consents to the imposition, at a maximum, of the following sanctions:
1. Censure of the Member;

2. A fine of \$10,000 against the Member;

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

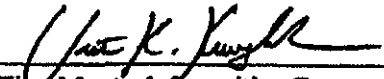
III. OTHER MATTERS

- A. The Member 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 Member 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 Member 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 Member 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.

< Remainder of Page Left Intentionally Blank >

The Member certifies that a duly authorized officer has 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 the Member to submit it.

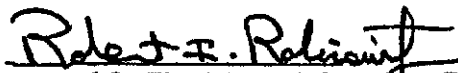
December 1, 2006
Date


First Montauk Securities Corporation

By: Victor K. Kurylak

Its: President & C.E.O.

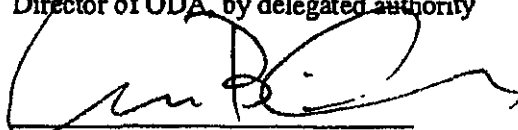
Reviewed by:


Counsel for First Montauk Securities Corporation

Accepted by NASD:

12/14/06
Date

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


UnBo Chung
Senior Regional Attorney
NASD Department of Enforcement
55 West Monroe Street, Suite 2700
Chicago, IL 60603-5052
(312) 899-4641

Carlotta A. Romano
Senior Vice President and District
Director
NASD District 8
55 West Monroe Street, Suite 2700
Chicago, IL 60603

Corrective Action Statement

**RE: First Montauk Securities Corp.
(CRD No. 13755)**

**Letter of Acceptance, Waiver and Consent
File Number 20050010283 – December 1, 2006**

Pursuant to Section III. --Other Matters of NASD Letter of Acceptance Waiver and Consent No. 20050010283, ("AWC") First Montauk Securities Corp. ("Montauk") hereby submits this Corrective Action Statement as an attachment to the AWC.

In order to ensure that Montauk does not have a repeat violation of the issues enumerated in this AWC, the following new procedures are being implemented:

- 1. Any new accounts that list a Post Office Box as the primary mailing address will be verbally confirmed with the client prior to being opened. This contact will be made by a Regional Supervisor and will be documented using the "Verbal Confirmation Form" ("VCF", see attached). The Regional Supervisor will ensure that the address is not the address of a branch office or in care of the Registered Representative.**
- 2. On a daily basis, the Operations department will generate a "New Accounts Report" which will detail all accounts opened the previous business day, and the mailing address associated with each account. The Operations department will review accounts with a P.O. Box mailing address to verify that the VCF has been completed. The report will be signed by an Operations principal to evidence the review, and a file of the reviewed reports will be maintained in the Operations department files. If a new account is opened with a P.O. Box mailing address and a VCF is not on file, the Operations Principal will notify the appropriate Regional Supervisor for corrective action.**
- 3. The Firm's policies and procedures state that a Regional Supervisor must verbally confirm with the client any change of their mailing address to a P. O. Box. Additionally, all address changes must be approved by a Regional Supervisor prior to being effected. The supervisor approving an address change must ensure that the new address is not the address of a branch office or in care of the Registered Representative.**
- 4. To verify this process, the Operations department will generate a "Name and Address Daily Edits – Changes" report, which will detail any address changes to customer accounts from the prior business day. This report will be reviewed by a designated supervisor and compared against approved client address change requests, to verify that a written request was received and approved for each change of address. Where an address was changed to a P. O. Box, the designee will verify that a VCF is on file, documenting the verbal confirmation with the client. The report will be signed by the supervisor to evidence review and will be maintained in the Supervisory Department files. If an address is changed without appropriate documentation on file, the supervisor will notify the appropriate Regional Supervisor for corrective action.**