

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2005001720502

TO: Department of Enforcement
NASD

RE: Prudential Securities, Inc., n/k/a Prudential Equity Group, LLC
CRD No. 7471

Pursuant to Rule 9216 of NASD Code of Procedure, Prudential Securities, Inc., n/k/a Prudential Equity Group, LLC ("Prudential Securities" or "Respondent") 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 Respondent alleging violations based on the same factual findings.

The Respondent 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 Respondent; and
3. If accepted:
 - a. this AWC will become part of the Respondent'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 Respondent'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
 - d. The Respondent 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 Respondent'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 Respondent 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:

Prudential Securities, Inc., n/k/a Prudential Equity Group, LLC is currently, and was during all times relevant hereto, a member of NASD and registered as a broker/dealer with the Securities and Exchange Commission. The firm registered with NASD in November 1939. On July 1, 2003, it entered into a joint venture with another NASD member firm and transferred the assets relating to its U.S. and Latin American retail securities brokerage operations to a holding company, which now operates under the name Wachovia Securities, LLC ("Wachovia"). Prudential Securities has prior relevant disciplinary history, including several NASD actions alleging supervisory deficiencies.

I.

WAIVER OF PROCEDURAL RIGHTS

The Respondent 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 Respondent;
- 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 Respondent 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 Respondent 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

- A. The Respondent 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:

Background and Underlying Misconduct

During the period from approximately May 1994 through May 2004, registered representative Edward T. Dold ("Dold") operated a *Ponzi* scheme by which he raised approximately \$2.4 million from at least eleven, mostly elderly, Prudential Securities, and later Wachovia, customers. Dold perpetrated the scheme by soliciting several of his customers to invest in a fictitious entity by the name of LW, Inc. To entice the customers, Dold provided them with documents, which he had secretly prepared on Prudential Securities letterhead, that falsely represented, among other things, that an investment in LW Inc. was suited for "a client whose nature is conservative," and that investments in LW, Inc. that were held to maturity would present "no risk to [investment] principal." After he successfully lured at least eleven customers into making investments in LW, Inc., Dold provided them with bogus periodic statements, also secretly prepared on Prudential Securities, and later Wachovia, letterhead, that showed growth in their investments.

By providing the customers with false account statements and making periodic purported profit payments to them, Dold was successful in getting most of the customers to make multiple investments in LW, Inc. over the course of several years. All of the customers used the check-writing feature on their Prudential Securities and Wachovia securities accounts to make investments in LW, Inc. Certain customers also liquidated conservative investments such as certificates of deposit and government securities to make investments in LW, Inc.

In reality, LW, Inc. was just a bank account controlled by Dold. He commingled the customers' funds in the account and, in order to create the perception that the "investment" was generating profits, used a portion of the funds to make purported profit payments to earlier investors in the scheme. Dold used the balance of customer funds for his personal use and benefit.

Dold's scheme was revealed in May 2004, when the executors of the estate of one of Dold's long-time customers complained to Wachovia that Dold would not provide them with account records for the deceased customer's LW, Inc. investment. Prudential Securities and its successor, Wachovia, subsequently launched an investigation that included inspecting Dold's office and reviewing the hard drive of Dold's office computer. The firms discovered information related to the scheme, including copies of LW, Inc. bank statements and cancelled checks

for the years 1997-2004, copies of the false account statements that Dold sent to customers, and copies of correspondence to and from customers regarding LW, Inc. The review of Dold's computer reveals that he maintained information regarding LW, Inc. on the computer, and that he used the computer to generate the false account statements.

Prudential Securities and Wachovia subsequently turned this information over to criminal authorities and assisted in the criminal prosecution of Dold. The firms were also able to identify other victims of Dold's scheme by reviewing all of his customers' account statements. Prudential Securities voluntarily entered into settlements with ten of the eleven affected customers, and paid out over \$1.5 million in restitution. The firm also paid an arbitration award in the amount of over \$2 million in connection with an arbitration brought by the estate of the remaining customer.

The FBI's investigation of this matter resulted in a criminal conviction against Dold for money laundering. He was sentenced to ten years imprisonment and ordered to pay restitution to the defrauded investors in the amount of \$1,931,949. Dold is currently serving his sentence in a federal prison located in Texas. NASD barred Dold from association with any NASD member firm in any capacity for his conduct described herein.

Prudential Securities' Supervisory Violations

During the period from approximately May 1994 through July 2003, Prudential Securities' Lubbock, Texas Branch Office failed to establish and maintain a system to supervise the activities of its registered representatives that was reasonably designed to achieve compliance with applicable securities laws and regulations, and NASD Rules. While employed at Prudential Securities, Dold defrauded at least eleven customers of at least \$2.3 million by soliciting them to make investments in a fictitious entity, misappropriating their investment funds, and sending them false account documents.

Dold operated his scheme out of the Lubbock Branch Office. For example, for at least eight years, Dold received his monthly LW, Inc. bank statements, including cancelled checks that showed payments to certain Prudential Securities customers, at the Lubbock Branch Office; he utilized his company-issued computer to generate the false account statements that he sent to customers; he sent and received email correspondence regarding LW, Inc. through the company email system; and he received customer correspondence regarding LW, Inc. at the Lubbock Branch Office.

Prudential Securities' supervisory system failed to detect any of Dold's activities. Although the firm had procedures addressing certain aspects of Dold's scheme, its Lubbock Branch Office did not have an adequate system for enforcing the procedures. For example, the firm's procedures required supervisory review of all incoming and outgoing correspondence, and prohibited the receipt of personal mail at the branch office. However, certain correspondence sent to Dold at the branch office, including the LW, Inc. bank statements, was identified as personal and delivered directly to him without being reviewed by a supervisor.

The firm, acting through the branch office supervisor, also failed to review certain written correspondence from customers that was sent to Dold at the branch office, and facsimile correspondence sent by Dold from the branch office fax machine.

Prudential Securities' supervisory system was deficient in that it had inadequate procedures regarding periodic review of customer account statements to detect irregular activity in Dold's customer accounts. Each investor in Dold's scheme wrote checks payable to "LW, Inc.," that were drawn on their Prudential Securities accounts. Each of those checks was reflected on the customers' Prudential Securities account statements as being written to "LW, Inc." A periodic review of Dold's customers' account statements would have revealed that several of his customers were making large payments to the same unknown entity, LW, Inc. Such a review may have uncovered Dold's scheme earlier and prevented additional customer harm.

Prudential Securities also failed to follow up on a "red flag" that may have uncovered Dold's scheme as early as the late 1990's. In December 1998, in connection with an anti-money laundering review of customer account activity, Prudential Securities' compliance department made an inquiry of the Lubbock Branch Office regarding a "cash like" deposit (i.e., a cashier's check that represented a purported profit payment to the customer from LW, Inc.) into a customer's account. The compliance department noted that the remitter of the cashier's check was LW, Inc., and asked the Lubbock office to explain the relationship between LW, Inc., and the customer. The then-branch manager responded back that the customer had an outside investment with LW, Inc., and that he (the manager) was comfortable with the account. The manager was instructed to monitor the customer's account.

Prudential Securities, acting through the manager, failed to adequately investigate what LW, Inc. was, and to monitor the customer's account. If it had, it would have found that LW, Inc. was not an incorporated entity. The firm would have also discovered that from the time of the inquiry from the Compliance Department until the customer's death in 2002, a total of thirteen checks made payable to LW, Inc., and totaling over \$560,000, were written on the account. Accordingly, a reasonable effort to monitor the customer's account as instructed by the compliance department would have revealed additional red flags, which if adequately followed-up on, could have led to the discovery of Dold's scheme.

Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 3010 by Prudential Securities, Inc., n/k/a Prudential Equity Group, LLC.

- B. The Respondent also consents to the imposition, at a maximum, of the following sanctions:

A censure and a monetary fine in the amount of \$125,000.00.

Prudential Securities is not being ordered to pay restitution based on its payment

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of over \$1.5 million to ten of the eleven affected customers, and its payment of an arbitration award in the amount of over \$2 million in connection with an arbitration brought by the estate of the remaining customer.

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

III.

OTHER MATTERS

- A. Respondent 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 Respondent 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 Respondent 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 Respondent 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 Respondent 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 it to submit it.

Prudential Securities, Inc., n/k/a Prudential Equity Group, LLC

10/3/06
Date

By: Kenneth Y. Tan
(signature)

Name: Kenneth Y. Tan
(printed name)

Title: Senior Vice President

Reviewed by:

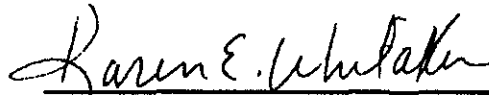
[Signature]
Counsel for Respondent

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Accepted by NASD:

12/08/2006
Date

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



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