

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20050019130-01**

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REGISTRATION & DISCLOSURE

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

RE: EdgeTrade Inc., Respondent
Broker-Dealer
CRD Number 42071

Pursuant to NASD Rule 9216 of the FINRA Code of Procedure, EdgeTrade 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 April 30, 1997 and its registration remains in effect.

RELEVANT PRIOR DISCIPLINARY HISTORY

On May 5, 2006, an AWC became final in which EDGE was censured and fined \$8,000 for violating NASD Rules 2110 and 6955(a) and \$5,000 for violating NASD Rules 2110 and 3010 (related to the Order Audit Trail System "OATS").

On September 19, 2003, an AWC became final in which EDGE was fined \$5,000 for violating NASD Rules 2110 and 6955(a).

OVERVIEW

The OATS Compliance Team of the Department of Market Regulation conducted an interfirm route matching review of the firm for the purpose of determining the firm's compliance with the OATS rules during the period October 1, 2004 through March 31, 2005 (the "review period").

FACTS/VIOLOGATIVE CONDUCT BY RESPONDENT

During the review period, the firm submitted to OATS 43,797 Route or Combined Order/Route Reports that the OATS system was unable to link to the corresponding new order submitted by the destination member firm due to inaccurate, incomplete or improperly formatted data. These 43,797 Route or Combined Order/Route Reports represented approximately 26 percent of all match-eligible Route or Combined Order/Route Reports (165,313) submitted to OATS by the firm during the review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

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

A censure and a fine of \$10,000.

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.

9/7/07

Date

Respondent
EdgeTrade Inc.

By: Norman D. Schwartz

Name: NORMAN D. SCHWARTZ

Title: CHIEF FINANCIAL OFFICER
CHIEF COMPLIANCE OFFICER

Reviewed by:

CARVEY SCHUBERT BARER

By: Simon H. Buchak

Attorney Name

Counsel for Respondent

Accepted by FINRA:

9/21/07

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

Norman D. Schwartz
Chief Financial Officer
Chief Compliance Officer
[REDACTED]

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September 7, 2007, 2007

Carl D. Binns, Esq.
FINRA Market Regulation
9509 Key West Avenue
Rockville, MD 20850-3329

Re: **Transmittal of Letter of Acceptance, Waiver and Consent**
STAR No. 20050019130 Corrective Action Statement

Dear Mr. Binns:

This Corrective Action Statement is submitted by EdgeTrade Inc. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

EdgeTrade began reviewing matching statistics on a regular basis in March 2005- April 2005. At that point in time we had been experiencing the reporting discrepancies set forth in the "OATS Reporting Schedule for Unmatched Interfirm Report Sweep". EdgeTrade immediately undertook to repair the technical problems causing the mismatches.

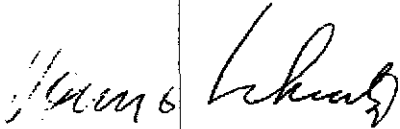
In March-April 2005, Samuel Lui, who was the employee responsible for OATS reporting began and continued to actively monitor the "unmatched Interfirm Routing Reports" section of the OATS web site. He reported the discrepancies at issue and worked with our Lead Software Engineer Mr. Ray Holmes to identify the cause of the high percentage of mismatches. The work to identify and resolve the malfunction causing the mismatches was supervised by me.

Mr. Holmes quickly responded to the reports and called Portware's support personnel to notify them of the Route Report mismatches. From April - August 2005, Mr. Holmes frequently called Portware demanding that they fix the malfunction. Mr. Holmes received repeated assurances from Portware that their OATS reporting system would be repaired and he urged the system's developer to conduct more diligent and frequent testing. From April - August 2005 Mr. Holmes and Mr. Lui worked to discover the

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Carl D. Binns, Esq.

cause of the mismatches apart from the work that was being conducted on the system by Portware's technical and support staff. While they waited for a response from Portware, we worked with the staff of BRUT and INET to determine the cause of the problem and attempted to employ "stop gap" measures. It was with the help of INET's personnel that Mr. Holmes and Mr. Lui discovered the malfunction with their Portware OATS reporting system's programming. After we discovered the cause of the programming error, Mr. Holmes re-wrote the programming code for Portware by bypassing the Portware malfunction and delivered it for installation. The system related malfunction at issue was confirmed to be corrected by Mr. Lui at 5:30 am on August 23, 2005. Today, Mr. Holmes receives reports of mismatches daily and he can and does respond to any malfunctions (and OATS related problems) much more quickly.

Sincerely,



Norman D. Schwartz