

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. ##

20050033034-01

TO: Department of Market Regulation
NASD

RE: B. Riley and Co. Inc., Respondent
Broker-Dealer
CRD No. 40355

Sherry Lee Tejeda, Respondent
CRD No. 2478647

Knut L. Grevle, Respondent
CRD No. 4152295

Pursuant to Rule 9216 of NASD Code of Procedure, B. Riley and Co. Inc. (the "firm" or "RILY"), Sherry Lee Tejeda ("Tejeda") and Knut L. Grevle ("Grevle") (collectively, the "Respondents") submit 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 Respondents alleging violations based on the same factual findings.

The Respondents understand 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 Respondents; and
3. If accepted:
 - a. this AWC will become part of the Respondents' permanent disciplinary records and may be considered in any future actions brought by NASD or any other regulator against the Respondents;

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REGISTRATION & DISCLOSURE

- b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about the Respondents' 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-8310-3; and
- d. The Respondents 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 Respondents' testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

The Respondents also understand that their 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:

The firm has been a member of NASD since January 3, 1997 and its registration remains in effect. On November 25, 2003, an AWC became final wherein the firm was censured and fined \$13,500 for trade reporting, supervision and record keeping violations and required to update its written supervisory procedures. On October 26, 2001, an AWC became final wherein the firm was censured and fined \$7,500 for OATS and supervision violations and required to update its written supervisory procedures.

Tejeda entered the securities industry in March 1994 as an employee of Great Western Financial Securities Corporation ("Great Western"). On May 26, 1994, Tejeda became an investment company and variable contracts products representative at Great Western. On March 22, 1996, Tejeda became a general securities representative at Great Western. The registrations at Great Western were terminated on May 1, 1998. On May 1, 1998, Tejeda became registered as a general securities representative at WM Financial Services, Inc. On June 4, 1998, Tejeda became registered as a general securities principal at WM Financial Services, Inc. The registrations at WM Financial Services, Inc. were terminated on August 27, 1998. From November 23, 1998 through June 25, 1999, Tejeda was registered as a general securities representative and a general securities principal at Royal Alliance Associates, Inc. From June 20, 1999 through July 19, 2000, Tejeda was registered as a general securities representative and general securities principal at National Planning Corporation. On July 13, 2000, Tejeda became registered as a general securities representative, general securities principal, and an investment company and variable contracts products representative at Dreyfus Brokerage

Services, Inc. ("Dreyfus"). On January 22, 2001, Tejeda became registered as a general securities sales supervisor at Dreyfus. On March 15, 2001, Tejeda became registered as a registered options principal at Dreyfus. The registrations at Dreyfus were terminated on July 25, 2002. On July 26, 2002, Tejeda became registered as a general securities representative, general securities principal, registered options principal, general securities sales supervisor, and an investment company and variable contracts products representative at RILY. On July 25, 2005, Tejeda became registered as a research principal at RILY. The registrations at RILY were terminated on January 3, 2007. On January 12, 2007, Tejeda became registered as a general securities principal, general securities representative, registered options principal, general securities sales supervisor, investment company and variable contracts products representative, and research principal at Citigroup Global Markets Inc. ("Citigroup"). The registrations at Citigroup remain in effect. Tejeda does not have any disciplinary history.

Grevle entered the securities industry in July 1999 as an employee of Janco Partners, Inc. ("Janco"). On June 13, 2000, Grevle became registered as a general securities representative at Janco. On January 1, 2001, Grevle became registered as an equity trader at Janco. The registrations at Janco were terminated on June 3, 2002. On June 11, 2002, Grevle became registered as a general securities representative and equity trader at RILY. On May 22, 2006, Grevle became registered as a general securities principal at RILY. These registrations remain in effect. Grevle does not have any disciplinary history.

I.

WAIVER OF PROCEDURAL RIGHTS

The Respondents specifically and voluntarily waive the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the Respondents;
- 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 Respondents 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 Respondents 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

In October 2005, the staff of the Market Regulation Department commenced an onsite Trading and Market Making Surveillance Examination ("TMMS examination") of RILY. As part of the examination, the staff attempted to review the following items:¹

- 288 customer and proprietary sale transactions for compliance with SEC Rules 200(g) and/or 203(b);
- 448 customer and proprietary transactions for compliance with short sale reporting requirements;
- five sale transactions for compliance with SEC Rule 10a-1;
- one sale transaction for compliance with NASD Conduct Rule 3350;
- 36 limit orders executed as principal or agent for compliance with NASD Rules 2110 (and IM-2110-2), 6440, 6541 and 2320, and SEC Rules 11Ac1-1 and 11Ac1-4 (now Rule 604 under Regulation NMS);
- eight non-displayed limit orders for compliance with best execution "crossing" requirements;
- 76 limit and market orders executed in a principal or riskless principal capacity for compliance with capacity reporting requirements;
- 61 orders submitted to the Order Audit Trail System ("OATS") for compliance with NASD Marketplace Rule 6955;
- 13 transactions in non-Nasdaq securities for compliance with NASD Conduct Rules 2320 and 3110;
- nine cancelled orders for compliance with NASD Rules 4632(g), 4642(g), 4652(g), 6420(f) and 6620(f), and SEC Rule 17a-3;
- registration status of six persons engaged in RILY's trading and market making activities;
- 86 customer confirmations for compliance with SEC Rule 10b-10;

¹ Unless stated otherwise, samples were from trade dates August 15, 2005 through August 26, 2005 ("TMMS review period").

- 429 order/trade records prepared and maintained by RILY for compliance with NASD Conduct Rule 3110 and SEC Rules 17a-3 and 17a-4;
- 1,089 transactions for compliance with the rules applicable to trade reporting and ACT reporting;
- Data published on RILY's quarterly order routing report for compliance with SEC Rule 11Ac1-6 (now Rule 606 under Regulation NMS) for the quarter ended June 2005;
- RILY'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
- RILY's establishment and implementation of a supervisory system and written supervisory procedures during August 2005.

- A. Respondent RILY 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:

The TMMS staff was unable to complete the firm's TMMS examination due to the firm's inaccurate and incomplete records and identified several issues that were widespread and prevalent at the firm. The number of problems uncovered and the scope of the problems indicate a failure to adequately address compliance needs at the firm. As a result, the staff then conducted a broader investigation, 20050033034, of the firm's trade reporting, record keeping, handling of short sales, supervision and OATS reporting. This matter is a result of both the initial findings of the firm's 2005 TMMS examination and the staff's subsequent investigation.

OATS

During the period March 2003 through February 2006, for certain orders handled at the firm that were received electronically through one of its systems, the firm did not submit new order or execution reports to OATS.

During the period March 2003 through February 2006, the firm transmitted to OATS reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, the reports always contained the incorrect time of order receipt. The firm failed to enter the time of order receipt into the system that reported to OATS on behalf of the firm. Orders and transactions were only entered into the system at the end of the day for allocation purposes. The firm's OATS reports represented the time of the execution and/or allocation as order receipt time. The firm also incorrectly utilized combined order execution reports and when doing so, failed to include the execution time. The firm failed to correctly report order modifications to OATS during this period. For example, the firm would submit a new order report for each modification of an order with a new order identifier. In other cases, the firm failed to report order modifications to OATS. In some instances, the firm submitted both a new order report and a combined

order/execution report for the same order. The firm also submitted OATS reports with incorrect terms and conditions of orders. In some instances, the firm reported to OATS the average price execution as the limit order price. All OATS reports submitted by RILY during the period March 2003 through February 2006 contained at least one inaccuracy and many reports contained several inaccuracies.

The conduct described in this section constitutes separate and distinct violations of NASD Marketplace Rule 6955(a).

RECORD KEEPING

In the three-year period, from March 2003 through February 2006, the firm's records contained numerous omissions and inaccuracies including:

- Failure to show the time of execution and/or the correct time of entry on the memorandum of brokerage orders;
- Failure to show the accurate terms and conditions on some of the memorandum of brokerage orders;
- On some memoranda of brokerage orders, the firm maintained illegible timestamps or failed to maintain timestamps;
- Failure in some instances to document the limit order price;
- Maintaining records that included inconsistent information regarding the same order in many instances;
- Incorrectly documenting capacity on some of its records;
- Failure to maintain the time of execution when executing cross transactions between customers on any firm record;
- In certain instances, documented the time of allocation to a customer rather than the time of execution; and
- Failure, in some instances, to document or incorrectly documented order modifications and the time of order modifications.

The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 17a-3 and NASD Conduct Rule 3110.

During August 2005, the firm failed to preserve for a period of not less than three years, the first two in an accessible place, the memorandum of certain brokerage orders. During March 2003 through February 2006, the firm did not create memoranda of brokerage orders when the firm received orders from other broker-dealers. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 17a-3 and NASD Conduct Rule 3110.

SHORT SALES

From at least June 2002 through May 2006, the firm improperly handled short sales due to a misunderstanding as to when a transaction was a short sale. Employees of RILY believed that when the firm held a customer sell order, and the firm executed transactions with other market participants on a riskless principal basis, that the firm was selling long or short based on the customer order. For example, if a customer placed a long sale order, the firm believed that its proprietary sales were long regardless of its proprietary position when executing transactions with other market participants prior to executing the customer order. If the firm held a customer short sale order, the firm believed it was selling short and treated transactions as short when executing trades with other market participants as riskless principal prior to filling the customer order even when the firm's proprietary inventory position was long.

As a result, when the firm executed short sale transactions on a down bid in its proprietary account while holding a customer long sale order in Nasdaq National Market securities, in which the firm was not a market maker, the firm sold such securities at or below the current inside bid when the current inside bid was below the preceding inside bid in the security. The conduct described in this paragraph constitutes separate and distinct violations of NASD Conduct Rule 3350.

During the period June 2002 through May 2006, when the firm executed short sale transactions while holding a customer long sale order when the firm was not a market maker in the security, the firm effected short sales for the firm's proprietary account(s) and failed to make/annotate an affirmative determination that the firm could borrow the securities or otherwise provide for delivery of the securities by settlement date. The conduct described in this paragraph constitutes separate and distinct violations of NASD Conduct Rule 3370 (during the period June 2002 through January 3, 2005) and SEC Rule 203 (during the period January 3, 2005 through May 2006).

During the period June 2002 through May 2006, when selling a security while holding a customer long sale order in such security when the firm did not have an inventory position, the firm executed short sale transactions and failed to report each of these transactions to the Trade Reporting Facility, OTC Reporting Facility, Nasdaq or ACT with a short sale modifier. The firm also incorrectly reported long sales as short sales to ACT when executing principal transactions while holding a customer short sale order in the security when the firm had an inventory position in the security. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6130.

During the period June 2002 through May 2006, when the firm incorrectly treated its short sales as long sales while holding a customer long sale order, the firm effected short sales of securities registered on a national securities exchange at or below the price at which the last sale of each security, regular way, was reported pursuant to an

effective transaction reporting plan. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10a-1.

TRADE REPORTING

From March 2003 through at least October 2005, the firm engaged in multiple violations with respect to trade reporting. During this time period:

- When reporting cross transactions, the firm failed to report the time of execution through ACT or the Trade Reporting Facility in last sale reports of transactions in designated securities;
- In certain circumstances, the firm failed to report the correct time of execution to ACT or to the Trade Reporting Facility in last sale reports of transactions in designated securities;
- The firm also failed to report to ACT or the appropriate trade reporting system last sale reports of transactions in designated securities;
- The firm failed to submit cancellation reports to ACT or the appropriate trade reporting system within the required time;
- The firm also incorrectly reported certain transactions as non-tape transactions; and
- The firm failed to report to ACT, Nasdaq, the Trade Reporting Facility, or the OTC Reporting Facility, the correct symbol indicating whether the firm executed transactions in Reportable Securities in a principal or agency capacity.

Due to a misunderstanding of when a transaction was a riskless principal transaction, the firm also consistently misreported riskless principal transactions from March 2003 through at least October 2005. This misunderstanding resulted in inaccurate trade reporting in Nasdaq National Market, Nasdaq SmallCap, OTC Equity, and eligible securities. In most transactions executed by the firm during the period March 2003 through October 2005, the firm incorrectly reported to the appropriate trade reporting system for the specific market class involved, the second leg of "riskless" principal transaction(s) in designated securities because it incorrectly designated the capacity of such transaction(s) as "agent." In other instances, the firm failed to submit to the appropriate trade reporting system for the market class involved, for the offsetting, "riskless" portion of "riskless" principal transaction(s) in designated securities, either a clearing-only report with a capacity indicator of "riskless principal," or a non-tape, non-clearing report with a capacity indicator of "riskless principal."

The trade reporting conduct described in this section constitutes separate and distinct violations of NASD Marketplace Rules 4632, 4642, 6130, 6420, and 6620.

SEC RULE 10B-10

The firm failed on nine occasions to provide written notification disclosing to its customer that the transaction was executed at an average price. The firm, on one occasion failed to disclose the correct price. The firm disclosed the incorrect market

center on 56 customer confirmations. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.

SUPERVISION

During August 2005, 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 best execution, the three quote rule, OATS, SEC Rule 11Ac1-6, limit order display, limit order protection, anticompetitive practices, short sales, record keeping, trade reporting, ACT reporting, registration, quoting or trading during a trading halt, and NASD Rules 5262, 5263, 6330 and 2320(g)(2). Specifically, the firm's supervisory system did not include written supervisory procedures or included inaccurate or incomplete 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 Conduct Rules 2110 and 3010.

- B. Respondents RILY, Tejada and Grevle hereby accept and consent, 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:

During August 2005, the firm, acting through Tejada and Grevle, failed to adequately enforce its written supervisory procedures with respect to certain rules. Specifically, the firm failed to conduct and document some of the reviews described in its written supervisory procedures. The conduct described in this paragraph constitutes a violation of NASD Conduct Rules 2110 and 3010.

During March 2003 through October 2005, the firm, acting through Tejada failed to adequately supervise the following areas, so as to detect and prevent violations: OATS, record keeping and registration. During March 2003 through October 2005, the firm, acting through Tejada and Grevle failed to adequately supervise the following areas, so as to detect and prevent violations: trade reporting and ACT reporting. The firm had widespread violations of the rules in these areas and failed to detect any of the ongoing problems at the firm through supervision. While the firm had some supervisory reviews, the firm failed to identify and correct the violations described above. The conduct described in this paragraph constitutes a violation of NASD Conduct Rules 2110 and 3010.

REGISTRATION

During the period February 25, 2005 through May 21, 2006, RILY, acting through Tejada, failed to register a person engaged in RILY's securities business functioning as a principal in the category of registration appropriate to the function to be performed as specified in NASD Membership and Registration Rule 1022. The conduct described in this paragraph constitutes a violation by RILY and Tejada of NASD Conduct Rule 2110 and NASD Membership and Registration Rule 1021.

During the period February 25, 2005 through May 21, 2006, Grevle engaged in RILY's securities business functioning as a principal and failed to register in the category of registration appropriate to the function to be performed as specified in NASD Membership and Registration Rule 1022. The conduct described in this paragraph constitutes a violation by Grevle of NASD Conduct Rule 2110 and NASD Membership and Registration Rule 1021.

- C. Respondent RILY also consents to the imposition, at a maximum, of the following sanctions:
- A censure;
 - A fine of \$225,000;
 - An undertaking to revise RILY's written supervisory procedures with respect to the following areas: best execution, the three quote rule, OATS, SEC Rule 11Ac1-6, limit order display, limit order protection, anticompetitive practices, short sales, record keeping, trade reporting, ACT reporting, registration, quoting or trading during a trading halt, and NASD Rules 5262, 5263, 6330 and 2320(g)(2). 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 above; and, (3) the date the revised procedures were implemented; and
 - Within 60 days of acceptance of this AWC by the NAC, provide a dated statement, signed by the Chairman of RILY and the President of RILY that certifies the firm has taken corrective action with regard to the regulatory issues and violations described in this AWC.
- D. Respondents RILY and Grevle also consent to the imposition, at a maximum, of the following sanctions:
- A censure against RILY and Grevle; and
 - A \$10,000 fine for the failure to supervise violation, which shall be a joint and several obligation of RILY and Grevle.

- E. Respondents RILY and Tejeda also consent to the imposition, at a maximum, of the following sanctions:
- A censure; and
 - A \$30,000 fine (composed of a \$20,000 fine for the supervision violations and a \$10,000 fine for the registration violation), which shall be a joint and several obligation of RILY and Tejeda.
- F. Respondent Grevle also consents to the imposition, at a maximum, of the following sanction:
- A \$5,000 fine for his registration violation.

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 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 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 the firm proposes to pay any fine imposed.
- C. The firm specifically and voluntarily waives any right to claim that the firm 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.

6/11/07
Date

Respondent
B. Riley and Co. Inc.

By: Tom Keller
Name: Tom KELLER
Title: CEO

Reviewed by:

[Signature]
Counsel for Respondent

Accepted by NASD:

8/1/07
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

Grevle certifies that he 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 him to submit it.

6/11/07
Date

Respondent
Knut L. Grevle

By: KLB Mh

Name: KNUT GREVLE

Title: DIRECTOR OF INSTITUTIONAL TRADING (Equities)

Reviewed by:

Counsel for Respondent

Accepted by NASD:

8/1/07
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

Tejeda certifies that she 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 her to submit it.

June 13, 2007
Date

Respondent
Sherry Lee Tejeda

By: [Signature]
Name: Sherry Tejeda
Title: _____

Reviewed by:

Counsel for Respondent

Accepted by NASD:

8/1/07
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

B | RILEY

*Research • Trading
Investment Banking*

June 29, 2007

Department of Market Regulation
National Association of Securities Dealers
9509 Key West Avenue
Rockville, Maryland 20850-3329

Re: Letter of Acceptance, Waiver and Consent No. _____

Ladies and Gentlemen:

Reference is made to the Letter of Acceptance, Waiver and Consent No. ____ (the "AWC"). As permitted under Section III A of the AWC, this letter constitutes a Corrective Action Statement submitted by B. Riley and Co. Inc. ("B. Riley & Co.") to be attached to the AWC.

I. Internal Audit Committee Examination

The Trading and Market Making Surveillance (TMMS) exam of B. Riley & Co.'s trading operations for the period of August 2005 was the first such examination in the firm's eight year history as a broker-dealer. B. Riley & Co. formed an internal audit committee, composed primarily of senior management, which was specifically tasked with addressing the issues set forth in the exit conference summary sent by the NASD examiners to the firm on December 12, 2005. The audit committee conducted a thorough review of the issues raised in the exit conference summary and determined causes of and implemented corrective actions for these issues.

In connection with its examination, the audit committee interviewed all of the trading, operations and compliance staff at the firm. The committee also conducted a detailed review of the firm's correspondence relating to the findings in the exit conference summary, including correspondence with Bloomberg, the provider of its order management system ("OMS"), prior regulatory exams of the firm by the NASD and the SEC, and client and intra-firm correspondence (including IMs and e-mails) related to the period covered by the TMMS examination. The firm also conducted a systems analysis of its OMS.

A summary of the primary corrective actions taken by B. Riley & Co. as a result of the issues identified by the TMMS examination and the firm's internal audit are set forth below.

II. Independent Consulting Firm Hired to Address TMMS Exam Issues

B. Riley & Co. retained the services of InvestmentCare, an independent consulting firm, to assist in the remediation of a number of issues identified by the TMMS exam. InvestmentCare assessed B. Riley & Co.'s TMMS program, including the accuracy of the NASD's TMMS exam; evaluated the firm's written supervisory procedures (WSPs) governing equity trading and market making, supervisory control systems, order handling and books and records; and reviewed the structure and effectiveness of the firm's compliance department. In connection with its work, the consulting firm interviewed all of the firm's traders, compliance and operational personnel and members of senior management. As a result of this review, various improvements to the WSPs and the compliance department were recommended.

III. Investment in Compliance Infrastructure

Since the TMMS examination, B. Riley & Co. has significantly invested in its compliance infrastructure. It has created and filled a new position of General Counsel to enhance compliance. The firm has replaced its Chief Compliance Officer with someone possessing more trading experience. The firm has added an additional 24 licensed trader to the trade desk specifically to assist the Director of Institutional Equity Trading with trade compliance. The firm has also invested in developing in-house software to assist in compliance functions.

The firm also instituted a detailed daily principal trade review with respect to trading and market making. As part of this review, which is being conducted each trading day, a principal on the trading desk reviews the information contained in the Monthly NASD report cards, such as OATS, best execution, short sales, trade errors, order modifiers and ACT reporting times. All exception reports generated by the OMS are reviewed and a member of the compliance department reviews all of the firm's OATS rejections and unmatched information as reported on the NASD website. This data is then compiled and reviewed by the Chief Compliance Officer and the Director of Institutional Trading at the end of each month and is compared with the data provided in the NASD Report Cards.

Our then Chief Executive Officer, President, Director of Operations, Director of Institutional Equity Trading and Chief Compliance Officer also took an NASD e-learning course on institutional supervision.

IV. OATS Reporting

As detailed in the firm's Mitigation Statement, the firm experienced a number of functionality issues with its Bloomberg OMS. The firm's work with Bloomberg began as soon as the OMS was installed and continued through the TMMS examination. The firm's efforts have been quite extensive, including working directly with its programmers who designed the platform for the system. As a result, one of the principal deficiencies

was corrected within weeks of receiving the exit conference summary – that is the firm was able to go “ticketless.” Customer orders are now administered through the OMS, which allows customer orders, as well as any modifications thereto, to be promptly entered into the OMS. Moreover, the OMS now allows allocations and bookings of orders to a customer account. Accordingly, the OMS has accurate information with respect to customer orders, including time of execution, order modification, a customer’s average price execution, the order capacity (including mixed capacity), and any relevant order trailers (including a market making and/or average price disclosure, as applicable), and is submitting the applicable information to OATS.

The firm also instituted additional OATS reviews, as described under Section III.

V. Record Keeping

At the time of the TMMS exam, B. Riley & Co. relied on a number of sources for its books and records relating to order memorandum, including reports generated from its OMS, physical order tickets, instant messages, e-mails, records from its clearing firm and information maintained in its proprietary database. Due to the multiple sources of information, trade data could be extracted from one or more of the various systems and, depending on the use of the given system, the data was inconsistent or in different formats. The primary source for the issues set forth in the AWC under “Trade Reporting” stem from the firm’s use of physical trade tickets due to functionality limitations of its OMS. As described in more detail above under Section IV, shortly after the TMMS examination, the firm resolved the issues with its OMS that had previously prevented the firm from going “ticketless”. As such, substantially all of the key records relating to our customer orders have been consolidated in its OMS ensuring that the firm has accurate information with respect to customer orders, including time of execution, terms and conditions of the order, modifications, limit order prices and capacity in one central repository.

B. Riley & Co. also corrected the order capacity issues set forth under the Record Keeping section of the AWC. After the NASD examiners raised the issue during the onsite examination, the firm corrected its designation of order capacity prior to or shortly after the NASD examiners finished their onsite examination.

The firm’s OMS has also been enhanced to provide an order allocation interface. Consequently, the firm can now allocate through the OMS, fully remediating the order capacity reporting issues identified in the AWC.

VI. Short Sales

The short sale violations identified in the AWC resulted from a general misunderstanding of the categorization of a short sale when the firm had a customer sell order and the firm was also executing transactions on a riskless principal basis. When the TMMS examiners identified this misunderstanding during its onsite exam, B. Riley &

Co. promptly corrected its understanding and held a meeting with the traders to educate them on the proper categorization.

VII. Trade Reporting

After extensive work with Bloomberg, the firm is able to execute agency cross transactions through the firm's OMS, which has corrected the timing and accuracy issues of agency cross reporting raised in the AWC. Actions taken to improve the trade reporting issues identified in the AWC are also described under Section III.

VIII. SEC Rule 10b-10

During the initial configuration of the OMS, the provider did not activate the average price disclosure flag. This resulted in the absence of average price disclosures on the firm's customer confirmations. This has since been corrected and trade confirmations for all orders executed at an average price are accurately disclosed.

IX. Supervision

B. Riley & Co. uses CCH Wall Street (CCH), a Wolters Kluwer company, to provide a framework for its WSP's that the firm then customizes for its operations. CCH also provides to the firm updates to those procedures to reflect regulatory changes. According to CCH, they supply WSP's for approximately 265 broker dealers. The outside consulting firm B. Riley & Co. hired in connection with the TMMS exam proposed changes to the WSPs relating to trading and market making. In addition, the firm's senior management conducted an internal review of such WSPs. As a result, the WSPs relating to the rules identified under the "Supervision" portion of the AWC have been extensively revised.

In addition, as described under Section III, the firm has instituted detailed daily and monthly reviews with respect to trading and market making.

X. Registration

Knut Grevle, Director of Institutional Equity Trading, sat for and successfully passed the Series 24 exam.

B. Riley Corrective Action Statement

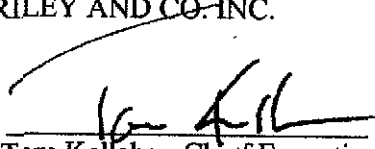
June 29, 2007

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This Corrective Action Statement is submitted by B. Riley & Co. It does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD, or its staff.

Sincerely,

B. RILEY AND CO. INC.

By: 

Tom Kelleher, Chief Executive Officer