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**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2006003682401**

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

RE: Avalon Partners, Inc.
(BD No. 41357)

Pursuant to NASD Rule 9216 of FINRA's Code of Procedure, Respondent Avalon Partners, Inc. (hereinafter "Avalon" or 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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. 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 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

Avalon has been a member of FINRA (the National Association of Securities Dealers or NASD) since April 7, 1997. The firm is authorized to act as: (i) a broker or dealer dealing corporate equity securities over-the-counter; (ii) a broker or dealer selling corporate debt securities; (iii) an underwriter or selling group participant; (iv) a mutual fund retailer; (v) a U.S. government securities broker; (vi) a put and call broker or dealer or option writer. The firm is also authorized to engage in private placements of securities. The firm employs approximately 13 registered representatives.

Avalon has no relevant formal disciplinary history with the Securities and Exchange Commission, any self-regulatory organization or any state securities regulator.

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OVERVIEW

For the period from August 24, 2004, through December 31, 2005, Avalon failed to develop and implement policies and procedures reasonably designed to detect and cause reporting of suspicious transactions and reasonably designed to achieve compliance with the Bank Secrecy Act, 31 U.S.C. § 5311, et seq., and the implementing regulations promulgated thereunder by the Department of the Treasury. By reason of the foregoing, Avalon violated NASD Conduct Rules 3011(a) and (b) and 2110.

During the period from September 26, 2005, through June 2, 2006, Avalon held securities certificates within its offices. As a result, on at least two occasions during this period, Avalon failed to maintain the required minimum net capital, while conducting a securities business. By reason of the foregoing, Avalon violated SEC Rule 15c3-1 and NASD Conduct Rule 2110.

During the period from January 4, 2005, through November 20, 2006, Avalon failed to adequately report statistical and summary information for four customer complaints through the NASD Conduct Rule 3070 ("Rule 3070") reporting system. By reason of the foregoing, Avalon violated NASD Conduct Rules 3070 and 2110.

FACTS AND VIOLATIVE CONDUCT

During the period from August 24, 2004, through December 31, 2005, Avalon's business included securities transactions involving penny stocks. However, its Anti-Money Laundering ("AML") procedures did not address issues which may arise in connection with securities transactions involving penny stocks. Accordingly, the firm failed to establish and implement AML policies and procedures reasonably expected to detect and cause the reporting of suspicious transactions and reasonably designed to achieve compliance with the Bank Secrecy Act, 31 U.S.C. § 5311, et seq., and the implementing regulations promulgated thereunder by the Department of the Treasury. By reason of the foregoing, Avalon violated NASD Conduct Rules 3011(a) and (b) and 2110.

Pursuant to SEC Rule 15c3-1, Avalon has a net capital requirement of the greater of \$5,000 or 6 2/3% of its aggregate indebtedness. However, during the period from September 26, 2005, through June 2, 2006, Avalon held securities certificates within its offices and as a result, Avalon's minimum net capital was \$250,000. On at least two occasions during this period, Avalon failed to maintain the required minimum net capital while conducting a securities business. Specifically:

- (a) On September 27, 2005, Avalon's minimum net capital was \$250,000. On that date, while conducting a securities business,

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Avalon maintained a net capital of \$96,118.63 and therefore had a net capital deficiency of \$153,881.37; and

- (b) On June 2, 2006, Avalon's minimum net capital was \$250,000. On that date, while conducting a securities business, Avalon maintained a net capital of \$41,617.16 and therefore had a net capital deficiency of \$208,382.84.

By reason of the foregoing, Avalon violated SEC Rule 15c3-1 and NASD Conduct Rule 2110.

During the period from January 4, 2005, through November 20, 2006, Avalon failed to report statistical and summary information for one customer complaint through the Rule 3070 reporting system, and failed to timely report information for an additional three customer complaints. Specifically, Avalon received one customer complaint on or about September 16, 2005. No information regarding this complaint was reported to the Rule 3070 System. Moreover, three additional customer complaints were received on January 4, 2005, August 4, 2005, and November 26, 2005, respectively. However, information regarding these three complaints was not reported to the Rule 3070 System until November 20, 2006. By reason of the foregoing, Avalon violated NASD Conduct Rules 3070 and 2110.

B. Respondent also consents to the imposition of the following sanctions:

- A fine of \$20,000; and
- A censure.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which Respondent proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that Respondent is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

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II.

WAIVER OF PROCEDURAL RIGHTS

Respondent 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 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 National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, 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.

Respondent 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

Respondent 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

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prove any of the allegations against Respondent; and

C. If accepted:

1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in future actions brought by FINRA or any other regulator against Respondent;
2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent's disciplinary records;
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. 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. Respondent 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 Respondent's right to take legal or factual positions in litigation or other proceedings in which FINRA is not a party.

- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. 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 FINRA, nor does it reflect the views of FINRA or its staff.

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; that Respondent has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of

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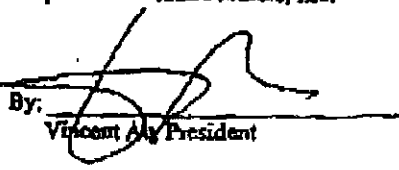
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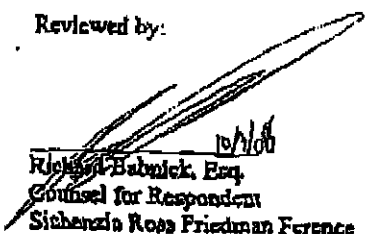
any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce it to submit it.

Respondent Avalon Partners, Inc.

10/3/08
Date

By: 
Vincent A. President

Reviewed by:

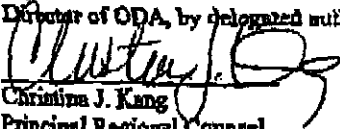

10/1/08
Richard Babnick, Esq.
Counsel for Respondent
Sichenzia Ross Friedman Ference
61 Broadway
New York, New York 10006

Accepted by FINRA:

October 30, 2008

Date

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


Christina J. Kang
Principal Regional Counsel
FINRA Department of Enforcement
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New York, NY 10006
(212) 858-4009; (t) 212-858-4770