

**NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2006003761801**

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REGISTRATION & DISCLOSURE

**TO: Department of Enforcement
NASD**

**RE: Colonial Brokerage, Inc., Respondent
[CRD No. 111668]**

Pursuant to Rule 9216 of NASD Code of Procedure, Colonial Brokerage, Inc. 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 us alleging violations based on the same factual findings.

We 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 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 us; and
3. If accepted:
 - a. this AWC will become part of our permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against us;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about our 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. We 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 our testimonial obligations or right to take legal or factual positions in litigation or other proceedings in which NASD is not a party.

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We also understand that our 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:

Colonial Brokerage, Inc. has been a member of NASD since September 12, 2001. During all periods mentioned herein, Colonial Brokerage, Inc. was a registered broker-dealer with the United States Securities and Exchange Commission (the "SEC") and a member of NASD, which registration and membership remain currently in effect. Colonial Brokerage, Inc. has been the subject of the following formal disciplinary action:

In 2005, Colonial Brokerage was subject to a Letter of Acceptance, Waiver, and Consent (E052004001401), accepting findings arising from net capital violations and trade reporting violations, and consenting to a fine of \$15,000.

I.

WAIVER OF PROCEDURAL RIGHTS

We 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 us;
- 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, we 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.

We 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. We hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding in which NASD is a party, prior to a hearing and without adjudication of any issue of law or fact, to the entry of the following findings by NASD:

1. During 2005, Colonial Brokerage, Inc. failed to perform an annual evaluation and prioritization of its training needs and failed to develop a written training plan.

Such acts, practices, and conduct constitute separate and distinct violations of NASD Membership and Registration Rule 1120(b) by Colonial Brokerage, Inc.

2. During the period from on or about July 1, 2004 through on or about March 31, 2006, Colonial Brokerage, Inc. failed to have a reasonable system for the review of email. The firm established parameters through an automated system for the flagging of emails that required review. Based upon these firm parameters, the firm should have reviewed 157,029 emails from a total of 991,562 received and sent. Despite the fact that the firm's own system required that 157,029 emails be reviewed, the firm actually reviewed only 13,867 emails for the time period.

Such acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rule 3010(d) and 2110 by Colonial Brokerage, Inc.

3. During the period from on or about July 2, 2002 through March 31, 2006, Colonial Brokerage, Inc. failed to timely conduct branch office inspections for its branch offices that do not supervise non-branch locations. Specifically, the firm failed to conduct an inspection within 36 months of the prior inspection for 5 of its 66 non-supervisory branch locations.

Such acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 3010 (c) and 2110 by Colonial Brokerage, Inc.

4. During the period from on or about February 1, 2005, through on or about December 31, 2005, Colonial Brokerage, Inc. failed to timely report 14 of 37 (or 37.8%) of its municipal securities transactions to the MSRB.

Such acts practices and conduct constitute separate and distinct violations of MSRB Rules G-14 by Colonial Brokerage, Inc.

- B. We also consent to the imposition, at a maximum, of the following sanctions:

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A censure and a monetary fine in the amount of \$25,000 to be assessed against
Colonial Brokerage, Inc.

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

III.

OTHER MATTERS

- A. We understand that we may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. We understand that we 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. We agree to pay any monetary sanctions imposed on us upon notice that this AWC has been accepted and that such payments are due and payable as noted above and have attached an Election of Payment form showing the method by which we propose to pay any fine imposed.
- C. We specifically and voluntarily waive any right to claim that we are unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

We certify that we have 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 us to submit it.

4/13/07
Date

Colonial Brokerage, Inc.

By: [Signature]

SEAN TESORO - CHIEF OPERATING OFFICER
[Name and Title]

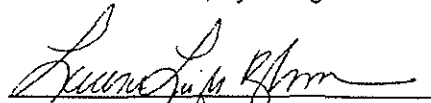
Reviewed by: _____

Counsel for Respondent
Accepted by NASD:

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May 7, 2007
Date

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



Laura Leigh Blackston,
Regional Counsel
NASD, District No. 5
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New Orleans, Louisiana 70163-0802
Phone: 504/522-6527
FAX: 504/522-4077

District Director
Keith E. Hinrichs
NASD, District No. 5
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Attachment: Election of Payment Form