

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2006003858201

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REGISTRATION & DISCLOSURE

To: Department of Enforcement
NASD

Re: Advanced Equities, Inc.
Broker Dealer
(CRD No. 35545)

Pursuant to Rule 9216 of NASD Code of Procedure, Advanced Equities, Inc. ("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.

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 submissions will not be used as evidence to prove any of the allegations against Respondent; and
3. If accepted:
 - a. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against Respondent;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about Respondent's 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. 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 allegation in this AWC or create the impression

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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.

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:

Advanced Equities, Inc. became a Member of NASD on May 18, 1994, and became registered with the Securities and Exchange Commission ("SEC") on December 7, 1993 as a broker-dealer. Respondent primarily engages in private placements, writing options, and acting as a broker-dealer in puts and calls as well as corporate equity securities. The Respondent's membership with NASD and registration with the SEC remain currently in effect.

The Respondent's disciplinary history includes AWC #20060038582 on January 13, 2006 with a censure and a fine of \$17,500 for violations of SEC Rule 15c3-1 for net capital deficiencies; NASD Membership and Registration Rule 1022(f) violations from January 17, 2004 through May 26, 2004 for failing to qualify and register an options principal; NASD Conduct Rules 2110 and 2860 for options activity supervision deficiencies and failure to employ a compliance registered options principal.

I.

WAIVER OF PROCEDURAL RIGHTS

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, 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 its acceptance or rejection.

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. Respondent hereby accepts and consents, without admitting or denying the allegations or 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:

**Inaccurate and Untimely Reporting of Trade Reporting and Compliance
Engine Eligible Securities in violation of
NASD Systems and Programs Rule 6230 and NASD Conduct Rule 2110**

1. On July 1, 2002, the NASD began requiring member firms to report information about corporate debt securities transactions for dissemination pursuant to the Trade Reporting and Compliance Engine ("TRACE") rules. If corporate debt securities transaction data is unavailable or incorrect because transactions are not reported in a timely manner or include erroneous data, dealers and investors alike experience harm because they cannot obtain an accurate picture of market activity and prices. Late or inaccurate transaction data may hinder a dealer's ability to price corporate debt securities accurately for customers, and, in turn, interferes with an investor's decision-making process.¹
2. Additionally, accurate and timely corporate debt transaction reporting forms are the primary audit trail for regulators to conduct surveillance for potentially manipulative practices, as well as detect sales practice violations and other violations of the federal securities laws and NASD Rules.

¹ Since 2002, NASD has repeatedly advised member firms of their responsibility to report transactions accurately. See Notice to Member 02-76, Corporate Debt Securities Transactions Subject to Reporting and Dissemination (November 2002); Notice to Members 03-36, Corporate Debt Securities (June 2003); and Notice to Members 04-39, Corporate Debt Securities (May 2004.).

3. From approximately July 14, 2005 through September 22, 2005, the Member effected corporate bond transactions that were eligible for reporting to Trade Reporting and Compliance Engine ("TRACE"), which transactions were issued by private issuers and registered under the Securities Act of 1933 or issued pursuant to Rule 144A of the Securities Act of 1933. In reviewing 42 TRACE eligible securities transactions that were required to be reported to TRACE within 15 minutes of the time of execution² during the three-month period, 37 were reported late (88%).
4. Each of these deficiencies by Respondent constitutes separate violations of NASD Conduct Rule 2110 and Systems and Programs Rule 6230.

**Failure to Prepare and Preserve Appropriate Order Tickets for
TRACE Eligible Corporate Debt Securities,
in Violation of SEC Rules 17a-3 and 17a-4, and NASD Rules 2110 and 3110.**

5. SEC Rules 17a-3 and 17a-4 generally provides that every member shall make and keep current a memorandum of each purchase and sale of securities that shows, among other things, the time the order was received, the time of entry, the execution price, and the yield, that shall be preserved for not less than six years.
6. From approximately July 14, 2005 through September 22, 2005, the Member executed about 42 customer and interdealer transactions of corporate debt securities that are TRACE-eligible securities, of which the staff reviewed 37 of these transactions. The order tickets for 37 transactions were not prepared in accordance with SEC Rule 17a-3(a)(6) and 17a-3(a)(7), in that:
 - a. 37 order tickets failed to show the time of entry or receipt of the customers' orders;
 - b. 35 order tickets failed to show the yield;
 - c. 5 order tickets were missing; and
 - d. 1 order ticket failed to show the time of the trade.
7. Such acts, practices, and conduct constitute separate and distinct violations of SEC Rules 17a-3 and NASD Conduct Rules 2110 and 3110 by the Member.

² On June 14, 2004, the Securities and Exchange Commission (SEC or Commission) approved amendments to Rule 6230(a) of the Trade Reporting and Compliance Engine (TRACE) Rules, the Rule 6200 Series, reducing the reporting period in two stages. In the first stage (Stage One), effective on October 1, 2004, the period to report a transaction in a TRACE-eligible security was reduced from 45 minutes to 30 minutes. In April 2005, NASD reminded members in NTM 05-28 that the second stage (Stage Two), which reduced the period from 30 minutes to 15 minutes, would become effective on July 1, 2005.

**Failure to Maintain and Enforce Adequate Written Supervisory Procedures
In Violation of NASD Conduct Rules 2110 and 3010**

8. From approximately December 1, 2005 through February 27, 2006, the Member failed to establish, maintain and enforce adequate written supervisory procedures that were reasonably designed to achieve compliance with the applicable transaction reporting requirements under NASD Rules related to TRACE Reporting, in that the procedures:
 - a. referred to the previous 45-minute reporting requirement that had been replaced with a 15- minute reporting requirement effective July 1, 2005;
 - b. failed to give adequate direction as to the preparation of TRACE transaction memoranda; and
 - c. failed to provide direction as to the preparation and preservation of TRACE transaction memoranda.
9. From approximately April 27, 2006 through September 21, 2006, the Member failed to maintain an adequate system of supervision reasonably designed to achieve compliance with the requirements of NASD Conduct Rule 2860 and NASD Membership and Registration Rule 1022 that require the Member to employ a registered options principal.
10. Such acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 3010.

**Failure to Properly Supervise Options Activity
In Violation of NASD Conduct Rules 2110 and 2860, and
NASD Membership and Registration Rule 1022**

11. The Member failed to adequately and properly supervise the options activity conducted at its firm, in that:
 - a. during the period of approximately May 12, 2006 through September 21, 2006, it failed to qualify and register a Registered Options Principal for the supervision of options transactions in the Member's customer options accounts, in violation of NASD Rule Conduct 2110 and NASD Membership and Registration Rule 1022; and
 - b. during the period of approximately April 27, 2006 through September 28, 2006, it failed to employ a Compliance Registered Options Principal to perform frequent appropriate supervisory review of its options business to ensure the Member was in compliance with

securities laws and regulations and NASD Rules, in violation of NASD Conduct Rules 2110 and 2860.

12. Such acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 2860, and NASD Membership and Registration Rule 1022.

Failure to Maintain an Accurate Form B-D
In Violation of SEC Rule 15b3-1 and NASD Conduct Rule 2110

13. From approximately April 27, 2006 through September 28, 2006, the Member failed to maintain an accurate Form BD in that the Member designated as the Senior Registered Options Principal an individual who was no longer associated with the firm.
 14. Such acts, practices, and conduct constitute separate and distinct violations of SEC Rule 15b3-1 and NASD Conduct Rule 2110.
- B. Respondent also consents to the imposition, at a maximum a censure and a fine of \$31,000.

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. 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. Respondent agrees to pay any monetary sanctions imposed upon notice that this AWC has been accepted and that such payments are due and payable and have attached an Election of Payment form showing the method by which Respondent proposes to pay any fine imposed.
- C. 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.

Respondent certifies that a duly authorized representative 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 that representative to submit it.

7/27/07
Date

Advanced Equities, Inc.
[Signature]
By: J. P. Fisk
Its President

Reviewed by:
[Signature]
Counsel for Respondent

Accepted by NASD:

September 17, 2007
Date

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

[Signature]
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