

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2008011696501**

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

RE: Garden States Securities, Inc., Respondent
Member Firm
CRD No. 10083



Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondents submit 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 us alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents 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 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

Since August 1981, Garden State Securities, Inc. ("Garden State") has been a member of FINRA. The firm conducts a general securities business and has 21 registered branch offices and employs about 109 registered persons.

In November 1993, [REDACTED] first became registered with FINRA as a General Securities Representative. Since September 2004, [REDACTED] has been registered in that capacity and as a General Securities Principal through Garden State.

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RELEVANT DISCIPLINARY HISTORY

On June 13, 2006, Garden State entered into an AWC with NASD in which it agreed, without admitting or denying the findings, to a censure and a \$10,000 fine for failing to enforce its policies and procedures relating to the customer identification requirements of the Bank Secrecy Act, 31 U.S.C. §5311, et seq., and the regulations promulgated thereunder (AWC No. E9B20050057). Respondent [REDACTED] has no FINRA disciplinary history.

OVERVIEW

Garden State offered and sold unregistered securities to customers. The securities and the transactions, however, were not exempt from registration. The firm also made commission payments to an unregistered entity. In addition, Garden State failed to make proper use of the Federal Trade Commission's national do-not-call registry, permitting its registered representatives to cold call persons on that list. Further, the firm, acting through [REDACTED] used a telemarketing script and issued research reports that contained exaggerated, misleading or unwarranted statements and failed to disclose required information. This conduct violated NASD Conduct Rules 2110, 2420, 2212, 2210, 2211 and 2711 and IM-2210-1.

FACTS AND VIOLATIVE CONDUCT

General Solicitation of Private Offerings

From February 2007 to March 2008 (the "relevant period"), Garden State served as a finder or placement agent for 12 offerings involving a private investment in public equity ("PIPE"). The PIPE offerings were not registered with the Securities and Exchange Commission or any state securities commission, but were to be sold pursuant to the exemption from registration provided by Rule 506 of the Securities Act of 1933 ("Securities Act"). Certain conditions must be met in order to qualify for this exemption. For example, the securities cannot be offered or sold through any form of general solicitation or advertising. During the relevant period, however, Garden State conducted a general solicitation of the PIPE offerings by cold calling prospective investors with whom the firm had no pre-existing substantive relationship. The firm provided the prospective investors with information about the PIPE offerings, which were pending or contemplated for offering at the time of the calls. Some of the cold-called individuals decided to invest in the PIPE offerings.

Section 5 of the Securities Act makes it unlawful to use the mails or interstate commerce to offer and sell any security unless the security is the subject of an effective registration statement or the security or transaction is exempt from

registration. As noted above, the PIPE offerings were not subject to a registration statement, and the securities and transactions were not otherwise exempt from registration. Garden State used the mails and means and instrumentalities of interstate commerce to offer and sell the PIPE offerings to prospective investors. Moreover, by conducting a general solicitation, the firm could not rely on the Rule 506 exemption from registration. By offering and selling unregistered securities in contravention of Section 5 of the Securities Act, Garden State violated NASD Conduct Rule 2110.

Payments to Non-Member Broker-Dealers

During the relevant period, Garden State made commission payments to representatives in two of its branch offices through non-registered entities. Those entities were owned by the principals of the branch offices and were entities through which they conducted business. By making commission payments to the non-member entities, Garden State violated NASD Conduct Rules 2420 and 2110.

Telemarketing Violations (Do-Not-Call List)

NASD Conduct Rule 2212(a) prohibits members and their associated persons from initiating any telephone solicitation to any person who has registered his or her telephone number on the Federal Trade Commission's national do-not-call registry. During the relevant period, however, Garden State firm failed to implement its procedures to comply with Rule 2212(a) and permitted representatives to make solicitation cold calls to at least 32 persons whose telephone numbers were on that do-not-call list. By permitting such calls and failing to implement relevant procedures, Garden State violated NASD Conduct Rules 2212(a), (d) and 2110.

Advertising/Research Report Violations

During the relevant period, Garden State prepared and used a telemarketing script that had been reviewed and approved by [REDACTED]. The script contained statements regarding the purported aggregate performance of the firm's individual stock recommendations, but failed to include 2007 and 2008 performance information and a description of the risks associated with an investment in stock, including the risk of loss. In addition, the script touted the successful performance of one of the firm's stock recommendations and suggested that similar opportunities would be available in the future. The selective reference to this one recommendation presented an oversimplified, exaggerated, unwarranted and misleading perspective to prospective investors.

Garden State prepared and sent monthly newsletters called "The Smart Money Tracks" to its customers. [REDACTED] reviewed and approved those newsletters, which constituted "research reports" under NASD Conduct Rule 2711(a). These research reports, among other things, made oversimplified, exaggerated, unwarranted and misleading statements regarding Garden State's stock recommendations. For example, the reports selectively highlighted and touted the firm's recommended "biggest winners" without setting forth information on all the firm's comparable recommendations with the same time period and making adequate disclosures regarding risks associated with its stock recommendations. The research reports also contained or referenced performance charts that provided oversimplified and incomplete presentations of Garden State's performance track record. Further, the research reports did not adequately disclose any ownership interests and material conflicts of interest concerning the firm's recommendations, and they did not adequately disclose the meaning of the firm's "buy," "hold" and "sell" ratings. In addition, the research reports contained ratings and price targets for securities without including a line graph of the securities' daily closing prices for the required period and without disclosing the risks that could impede achievement of the price targets.

By making unwarranted, exaggerated or misleading statements and failing to disclose required information in the telemarketing script and research reports, Garden State and [REDACTED] violated NASD Conduct Rules 2210(d)(1)(A) and (B), 2211(d)(1), 2711(h)(1),(4), (6) and (7) and 2110 and IM-2210-1(6)(C).

B. Respondents also consent to the imposition of the following sanctions:

Garden State Securities:

- a censure; and
- a fine of \$55,000.

- [REDACTED]
- a fine of \$5,000.

Respondents agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. They have each submitted an Election of Payment form showing the method by which they propose to pay the fines imposed.

Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against us;
- B. To be notified of the 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, 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.

Respondents further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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

Respondents understand 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 FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondents;
- C. If accepted:
 - 1. this AWC will become part of the Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against them;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about their disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. 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. Respondents 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 Respondents' right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party; and

- D. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they 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 undersigned, on behalf of Garden State, certifies that a person duly authorized to act on its behalf 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 its 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.

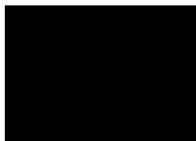
DeRosa certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce him to submit it.

Garden State Securities, Inc.

3/29/10
Date

By: Louis Lucky Perotto Jr.
President - COO

03/29/10
Date



Accepted by FINRA:

April 22, 2010
Date

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

David F. Newman (dc)

David F. Newman
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