

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010020940701**

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

**RE: Hallmark Investments, Inc. (BD No. 135003)
Respondent**

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Hallmark Investments, Inc. ("Hallmark," "Respondent," 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 me alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Hallmark 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

Hallmark has been a member of FINRA (formerly NASD) since 2005. Hallmark employs approximately eight registered individuals and has one branch office. The Firm is primarily engaged in the sale of securities to retail customers.

RELEVANT DISCIPLINARY HISTORY

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

OVERVIEW

Between April 1, 2009 and March 31, 2011, Hallmark failed to establish a reasonable supervisory system and procedures for the retention and review of electronic

communications. In addition, in and around November 2010, Hallmark failed to notify FINRA and the SEC that business records of the Firm, namely emails retained in hard copy format, had been destroyed.

Hallmark also conducted a securities business while it had net capital deficiencies on July 30, 2010, August 31, 2010, and September 30, 2010. These deficiencies were apparently precipitated by the Firm's failure to accrue a liability for an adverse arbitration award.

FACTS AND VIOLATIVE CONDUCT

1. E-Mail Related Violations

a. Deficient supervisory system and procedures

The Firm failed to establish a reasonable supervisory system and procedures related to its retention and review of electronic communications. Hallmark's written supervisory procedures did not reflect the Firm's intended practice of maintaining emails in hardcopy format. In addition, the Firm did not establish a system to confirm that all electronic communications were contemporaneously printed for retention. By reason of the foregoing Hallmark violated NASD Rule 3010 and FINRA Rule 2010.

b. Failure to notify FINRA and the SEC that business records of the firm were destroyed

In and around November 2010, Hallmark moved office locations and discovered that some of its business records, namely emails maintained in hard copy format, were destroyed by water damage. In April 2011, Hallmark first notified FINRA staff, in response to an 8210 request, that the records were destroyed; however, Hallmark did not provide notification to the SEC and FINRA as required by SEC Rule 17a-11. By reason of the foregoing, Hallmark violated SEC Rule 17a-11 and FINRA Rule 2010.

2. Conducting a Business While Net Capital Deficient

At all times between July 30, 2010 and September 30, 2010, Hallmark had a minimum net capital requirement equal to the greater of \$5,000 or 6 2/3% of its aggregate indebtedness. Hallmark failed to accrue an adverse arbitration award in the amount of \$115,258.¹ As a result, Hallmark conducted a securities business while it was net capital deficient on at least the following three dates:

- On Friday, July 30, 2010, Hallmark had a net capital requirement of \$16,456 and maintained net capital of (\$86,966), a deficiency of \$103,422;

¹ An arbitration award was rendered against Hallmark in 2008. In March 2009, Hallmark filed a petition with the New York State Supreme Court seeking to vacate the modified award. In July 2010, the court denied Hallmark's petition.

- On Tuesday, August 31, 2010, Hallmark had a net capital requirement of \$14,872 and maintained net capital of (\$94,330), a deficiency of \$109,202; and
- On Thursday, September 30, 2010, Hallmark had a net capital requirement of \$15,330 and maintained net capital of (\$103,288), a deficiency of \$118,618.

By reason of the foregoing, Hallmark violated SEC Rule 15c3-1 and FINRA Rule 2010.

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

- Censure, and
- A fine in the amount of \$15,000.

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

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

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

II.

WAIVER OF PROCEDURAL RIGHTS

Hallmark specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- To have a Complaint issued specifying the allegations against it;
- To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- 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
- 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, Hallmark specifically and voluntarily waives any right to claim bias or prejudice 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.

Hallmark further specifically and voluntarily waives 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

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

- D. Hallmark may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Hallmark 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.

The undersigned, on behalf of the Firm, 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 Hallmark 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.

01/22/2013
Date (mm/dd/yyyy)

Hallmark Investments, Inc. (BD No. 135003)

By: 

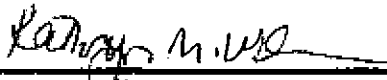
Print Name and Title:

Steven D. Dub
CEO

Accepted by FINRA:

1/31/2013
Date

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


Kathryn M. Wilson
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