

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010021003301**

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

RE: Gar Wood Securities LLC
CRD No. 138033

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Gar Wood Securities LLC ("Gar Wood" 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 the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm 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

Gar Wood has been a member of FINRA since February 16, 2006. The firm is also a member of the National Futures Association and ARCA. The firm primarily conducts an equities and options business with institutional clients, although the firm does maintain a small number of retail accounts. The firm also acts as third party marketer of outside hedge funds. As of 2011, the firm had 32 registered representatives, 4 OSJ offices, 3 non-OSJ registered branches, and 1 non-registered branch.

RELEVANT DISCIPLINARY HISTORY

Gar Wood has no prior relevant disciplinary history.

OVERVIEW

At various times between February 2008 and January 2010 ("the relevant period"), a customer account at Gar Wood sold unregistered and restricted shares of low priced stock issued by at

least three companies. By facilitating the sale of such restricted securities for one of its customers, Gar Wood acted in contravention of Section 5 of the Securities Act of 1933 ("Securities Act") and violated NASD Rule 2110 and FINRA Rule 2010.

In addition, between February 2008 and January 2010, Gar Wood failed to identify suspicious "red flag" activity in the ICG account, and failed to properly investigate any "red flags" and file a Form SAR-SF on such activity, as appropriate. As a result, Gar Wood violated NASD Conduct Rules 3011 and 2110 and FINRA Rules 3310 and 2010.

Moreover, between February 2008 and January 2010, Gar Wood's supervisory system was not reasonably sufficient to ensure compliance with applicable rules and regulations regarding the distribution of unregistered and non-exempt securities. As a result, Gar Wood violated NASD Rules 3010 and 2110 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Section 5

Section 5 of the Securities Act prohibits any person, directly or indirectly, from selling a security in interstate commerce unless a registration statement is in effect as to the offer and sale of that security or there is an applicable exemption from the registration requirements.

In January 2009, FINRA reminded members in Regulatory Notice 09-05 that firms play a critical role in helping prevent illegal, unregistered resales of restricted securities into the public markets because firms "typically serve as the channel of distribution through which issuers, affiliates and promoters can access the public securities markets. Firms that do not adequately supervise or manage their role in such distributions run the risk of participating in an illegal, unregistered distribution. Problems arise when firms fail to recognize or take appropriate steps when confronted with red flags that signal the possibility of an illegal, unregistered distribution."

FINRA also reminded firms in Regulatory Notice 09-05 that they are required to have procedures reasonably designed to avoid becoming participants in the potential unregistered distribution of securities, and that they could not rely solely on others, such as clearing firms, transfer agents, or issuers' counsel, to fulfill these obligations.

Between approximately August 2008 and October 2010, a certain entity, ICG, maintained an account at Gar Wood. ICG made loans to other entities or individuals who held low priced stock in exchange for a pledge of that low-priced stock. ICG then sold the pledged stock, and ICG retained any profit upon the sale of the stock.

ICG deposited the pledged stock in its Gar Wood account. Consistent with its business model, ICG regularly deposited mostly penny stocks into the account, followed almost immediately by the sale of the penny stocks and subsequent wiring out of the proceeds.

During the relevant period, penny stocks from approximately 24 different issuers were transferred into the ICG account and liquidated in large volumes, in many instances involving millions of shares, with the proceeds being wired out soon after. The penny stock shares were all used as collateral by individuals making non-recourse loans to ICG.

On at least three instances, physical shares bearing no restricted legend that were received into the ICG account and subsequently sold were in fact restricted from resale:

Nexicon—One million shares of Nexicon were issued as restricted shares on November 4, 2008. The shares were transferred into ICG's account at Gar Wood on August 21, 2009 and subsequently sold by October 2, 2009, prior to the expiration of the one year holding period.

Lotus Pharmaceuticals— Approximately 1,250,000 restricted shares were issued to an individual under the terms of a consulting agreement on or about October 22, 2009. ICG received 1,250,000 shares of Lotus Pharmaceuticals from that individual on November 27, 2009 (625,000 shares) and on December 4, 2009, another 625,000 shares were deposited. ICG proceeded to sell the shares throughout December 2009. The shares, which were being sold only two months after issuance, were still restricted at the time of resale.

Madavox— Shares of Madavox were transferred into the ICG account on or about December 19, 2008, although the shares were originally received as restricted on June 17, 2008. The shares were liquidated starting in December 2008 through February 2009, all during the restricted period.

By facilitating the resale of restricted stock to the public in the account of one of its customers, Gar Wood acted in contravention of Section 5, and in turn, violated NASD Rule 2110 and FINRA Rule 2010.

AML

NASD Conduct Rule 3011(b) and FINRA Rule 3310(b) require members to "develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the member's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et seq.), and the implementing regulations promulgated thereunder by the Department of the Treasury." NASD Rule 3011(a) and FINRA Rule 3310(a) require members to "[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder." In *Notice to Members 02-47*, FINRA reminded members of their obligation to look for red flags and report suspicious activity by filing a SAR-SF. It is not necessary for a broker-dealer to prove that a customer has engaged in illegal activity or to have actual knowledge of illicit or unlawful trading by a customer; rather, it is sufficient that the broker-dealer have reason to suspect that a transaction involves unlawful activity or lacks an apparent lawful purpose.

GarWood's written procedures in effect during the relevant time required the firm to review transaction information, as well as information and reports provided by its clearing firm, in an effort to spot "red flags" of suspicious activity that might be indicative of money laundering.

The procedures required the firm to file suspicious activity reports (SAR-SF) when certain questionable activities were identified, including: trading or journaling between/among accounts; late day trading; heavy trading in low priced securities; unexplained wire transfers, including those to known tax havens; and large deposits of funds or securities.

During the relevant period, Gar Wood failed to identify, document and take appropriate steps with regard to certain red flags and suspicious activity in the ICG account. Those red flags included:

- ICG opened a new account and delivered physical certificates representing a large block of thinly traded or low priced securities;
- ICG had a pattern of depositing physical share certificates, immediately selling the shares and then wiring out the proceeds of the sale;
- ICG deposited share certificates that were recently issued or represented a large percentage of the float for the security;
- The lack of a restrictive legend on deposited shares seemed inconsistent with the date the customer acquired the securities or the nature of the transaction in which the securities were acquired;
- ICG had limited assets but received an electronic transfer or journal transaction of large amounts of low priced unlisted securities;
- Issuers' SEC filings were not current, were incomplete or nonexistent; and
- Some of the company stocks deposited and sold in the ICG account involved shell companies that issued shares; and
- JP Morgan, the original clearing firm for the ICG account, closed the ICG account after JP Morgan identified several red flags related to ICG's operations.

By failing to identify and investigate suspicious activity, and where appropriate file a Form SAR-SF, Gar Wood failed to implement and enforce an adequate AML program and violated NASD Conduct Rules 3011(a) and 2110 and FINRA Rules 3310 and 2010.

Supervision

NASD Rule 3010(a) requires that firms "establish and maintain a system to supervise activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules." Under NASD Rule 3010(b), these systems must be documented in the firm's written supervisory procedures, which must be tailored to the businesses in which the firm engages, and must set out mechanisms for ensuring compliance and for detecting violations, and not merely set out what conduct is prohibited.

Gar Wood's written supervisory procedures included descriptions of possible "red flags" and required registered personnel to provide additional documentation for certain "red flag" penny stock transactions.

However, in at least the three instances discussed above, Gar Wood failed to enforce its supervisory procedures or systems when it failed to conduct an inquiry about whether deposited shares were registered or exempt from registration. Instead, Gar Wood relied on its transfer agent

and clearing firm, which required that customers self-report through the submission of a Deposit Securities Request Questionnaire (DSRQ) related to each transaction. The DSRQ form sought information related to the reason for the deposit of physical certificates, the date the security was acquired, the manner of payment, whether shares were received as compensation, how many shares of the issuer are owned or controlled by the security owner, and whether the security is restricted and why, among others.

Gar Wood could not evidence that the DSRQ was reviewed as required.

In addition to its failure to review the DSRQ form, Gar Wood also failed to conduct an independent assessment of the information representing the transaction on each DSRQ form. Gar Wood failed to confirm or investigate the customers and issuers' backgrounds, confirm the sellers' affiliation status and conditions under which the shares could be resold, verify that the issuer was current in its filings with the SEC and the issuers' information was publically available, review thoroughly and critically any opinion of counsel, restricted stock legend, offering materials or prospectus and other relevant documents for reasonableness. Gar Wood failed to confirm how long the customer held the securities, how the customer acquired the securities, whether the customer intended to sell additional shares of the same class of securities through other means, whether the customer solicited or made any arrangement for the solicitation of buy orders in connection with the proposed resale of unregistered securities, whether the customer made any payment to any person in connection with the proposed resale of securities, the number of shares or other units of the class outstanding, and the relevant trading volume. Gar Wood also failed to collect order records/transaction reports, new account records, records of certificates received, and designated supervisor's record of action taken, as required by its written supervisory procedures.

As a result of the foregoing, Gar Wood failed to implement an effective supervisory system or enforce its written supervisory procedures, in violation of NASD Conduct Rules 3010 and 2110 and FINRA Rule 2010.

B. The firm also consents to the imposition of the following sanctions:

- A Censure and
- A fine of \$75,000.

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

Gar Wood specifically and voluntarily waives any right to claim that Gar Wood 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.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against the Firm;
- 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, the Firm 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.

The Firm 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

The Firm 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 the Firm; and**
- C. If accepted:**
- 1. this AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;**
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the Firm'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. The Firm 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. The Firm 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 the Firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.**
- D. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm understands that the Firm 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 had been given a full opportunity to ask questions about it; that the undersigned on behalf of the Firm 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.

2/8/2013

Date

DENNIS R. GERECKE

Gar Wood Securities LLC

By: 

Reviewed by:



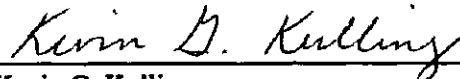
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Accepted by FINRA:

February 21, 2013

Date

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



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