

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2010023469301**

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

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

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

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

Garden State Securities, Inc. ("GSS" or "Firm") has been a member of FINRA since August 1981. The Firm is based in Red Bank, New Jersey and conducts a general securities business. It is also registered with the Municipal Securities Rulemaking Board ("MSRB"). GSS employs about 108 registered persons and operates 16 branch offices.

RELEVANT DISCIPLINARY HISTORY

On May 10, 2011, GSS entered into an AWC with FINRA in which it agreed to a censure and to pay \$300,000 in restitution, on a joint-and-several basis with one of its principals, to six Medical Capital Holdings, Inc. ("MedCap") investors for supervision violations. As a result of its supervisory deficiencies, GSS failed to conduct adequate due diligence on private placements by MedCap and U.S.

Drillers, Inc. In addition, FINRA found that GSS had mischaracterized and/or negligently omitted certain material facts in selling MedCap promissory notes to six customers. FINRA also found that the Firm had distributed sales literature regarding the U.S. Drillers offering that did not comply with the advertising rules.

On April 22, 2010, GSS entered into an AWC with FINRA in which it agreed to a censure and a \$55,000 fine for offering and selling unregistered securities without an available exemption, making commission payments to an unregistered entity, failing to make proper use of the Federal Trade Commission's national do-not-call registry and for certain advertising violations.

On February 22, 2010, GSS entered into an AWC with FINRA in which it agreed to a censure, a \$50,000 fine and the payment of \$3,984 in restitution for suitability, improper pricing and related supervision violations involving corporate bond transactions.

OVERVIEW

GSS failed to provide a complete response to FINRA staff's request for information. This conduct violated FINRA Rules 8210 and 2010.

GSS failed to establish, maintain and enforce a system of written supervisory control policies and procedures that were reasonably designed to review and monitor all transmittal of customer funds. This conduct violated NASD Conduct Rule 3012, FINRA Rule 2010 and MSRB Rule G-27.

FACTS AND VIOLATIVE CONDUCT

Incomplete Response to FINRA Staff's Request

On September 14, 2010, FINRA staff, pursuant to FINRA Rule 8210, hand delivered a request letter to GSS, seeking a copy of its due diligence files for any and all private placements. On September 22, 2010, the Firm provided information and documents in response to this request letter, and it indicated to FINRA staff that all relevant documents had been produced. GSS, however, had failed to provide all due diligence files. On July 13, 2011, during an on-the-record interview of the Firm's Director of Investment Banking, GSS disclosed for the first time that there were additional due diligence documents that had not been produced. The Firm subsequently provided those documents to FINRA staff. By failing to provide a complete response to the document request, GSS violated FINRA Rules 8210 and 2010.

Deficient Supervisory Controls

From at least January 2010 through September 2010, GSS failed to establish, maintain and enforce a system of written supervisory control policies and procedures that were reasonably designed to review and monitor all transmittal of funds (e.g., wires or checks) or securities from customers to third-party accounts and/or from customer accounts to outside entities. For example, the Firm did not adequately supervise wire activity in its branch offices. As a result, GSS failed to prevent the altering of thirteen wire request forms in seven customer accounts. The seven customers had ordered the wire transfers, authorizing the transfer of funds from their GSS account to a third party's bank account or an outside entity. A GSS clerical employee, however, failed to obtain properly signed wire request forms for those transactions. Instead, that employee altered copies of earlier signed forms by applying correction fluid over the original dates and dollar amounts and then writing in the dates and dollar amounts for the current transactions. Those forms were then used to process the transactions.

By failing to establish, maintain and enforce written supervisory control policies and procedures, GSS violated NASD Conduct Rule 3012, FINRA Rule 2010 and MSRB Rule G-27.

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

- a censure and a \$50,000 fine (\$12,500 of which pertains to the violations of MSRB Rule G-27).

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

Respondent specifically and voluntarily waives any right to claim that it 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

Respondent specifically and voluntarily waives the following rights granted under FINRA's

Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;
- 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, 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 acceptance or rejection of this AWC.

Respondent 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

Respondent 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 Respondent;
- C. If accepted:
 - 1. this AWC will become part of Respondent'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 Respondent'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. 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 finding in this AWC or create the impression that the AWC is without factual basis. Respondent 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party; and

- D. Respondent 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 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 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.

Garden States Securities, Inc.

7/19/12
Date (mm/dd/yyyy)

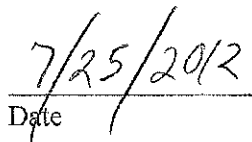
By: Louis Lucky Perrotto, Jr.
Louis Lucky Perrotto, Jr.
Chief Executive Officer

Reviewed by:

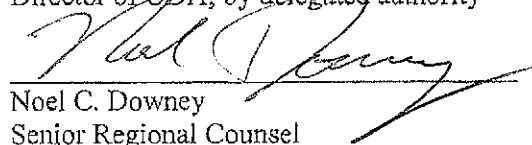


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Accepted by FINRA:


Date

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



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