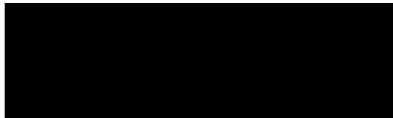


NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. C07050004

TO: Department of Enforcement
NASD

RE: GunnAllen Financial, Inc., Respondent
Member Firm
CRD No. 17609



Stephen I. Saunders, IV
General Securities Principal
CRD No. 2873747

Pursuant to Rule 9216 of NASD Code of Procedure, GunnAllen Financial, Inc. ("GunnAllen"), [REDACTED] and Stephen I. Saunders, IV ("Saunders") (collectively "Respondents") submit 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 Respondents alleging violations based on the same factual findings.

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

Letter of Acceptance, Waiver and Consent
C07050004/GunnAllen Financial, Inc.,
[REDACTED] and Stephen I. Saunders, IV

- 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. 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 allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects Respondents' testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

Respondents also understand that their 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:

GunnAllen Financial, Inc. is currently, and was during all time relevant hereto, a member of NASD and registered as a broker/dealer with the Securities and Exchange Commission. The firm became registered with NASD on June 10, 1986. The firm's disciplinary history includes the following:

On March 3, 2004, GunnAllen entered into an AWC (CLI040004) with NASD to settle charges that it failed to comply with NASD Conduct Rule 2110 in that the firm executed settlement agreements with public customers that contained overly broad confidentiality clauses that appeared to restrict the customers' ability to cooperate with self-regulatory organizations such as NASD. The firm was fined \$5,000.00.

On September 29, 2003, GunnAllen entered into an AWC (C07030066) with NASD to settle charges that it failed to comply with NASD Membership and Registration Rule 1017 in that the firm failed to obtain NASD approval prior to effecting a material change in business operations by expanding its number of registered representatives and branch offices beyond the limits delineated in IM-1011-1, Safe Harbors for Business Expansions. The firm was censured and fined \$10,000.00, of which \$5,000.00 was joint and several with the responsible individual.

On or about May 13, 2003, GunnAllen entered into an AWC (C07030033) with NASD for its failure to comply with NASD By-Laws Article V, § 2 and NASD Conduct Rule 3070(A)(8), in that the it failed to report settlements of customer arbitration claims in excess of \$25,000 within 10 business days, and failed to update Uniform Applications for Securities Industry Registration ("Forms U-4") of associated persons to reflect settlement of those customer claims. The firm was fined \$7,500.00.

On or about January 3, 2002, GunnAllen entered into a consent order and was fined \$3,000 by the State of North Dakota for conducting transactions with North Dakota residents prior to their obtaining proper state registration.

On or about August 2, 2000, GunnAllen entered into an AWC (No. CMS000162) with NASD for violations of SEC Rule 15c2-11, NASD Marketplace Rule 6740 and

Conduct Rule 2110, to settle charges that the firm placed orders to sell certain OTC equity shares, of which the SEC had suspended trading, for the firm's proprietary account. After the conclusion of the suspension periods, the firm published a quotation or submitted such quotations for publication in a quotation medium, without having: 1) the required documentation, 2) a reasonable basis for believing the information they did have was accurate, or 3) that the information they had was reliable. The firm also failed to file Form 211 with NASD within the required time period prior to the quotations being published or displayed in a quotation medium. The firm was fined \$5,000 and ordered to submit revised written supervisory procedures reasonable designed to prevent future violations of SEC Rule 15c2-11 and NASD Rule 6740.

Stephen Irvin Saunders, IV entered the securities industry in March 1997 when he became associated with NASD member firm Raymond James & Associates, Inc. ("Raymond James"). He remained at Raymond James until June 2001. He obtained Series 7, and 63 securities licenses in June 1998, a Series 24 license in October 1998, and a Series 4 license in September 1999. Saunders registered with GunnAllen in June 2001. During the relevant time period, Saunders served as the firm's Director of Compliance. He has no prior disciplinary history.

[REDACTED] entered the securities industry in November 1987 when he became associated with NASD member firm The Stuart James Company, Inc. ("Stuart James"). He obtained Series 7 and 63 securities licenses in February 1988 and March 1988, respectively. Between October 1990 and February 1997, [REDACTED] was associated with three other member firms, during which time he obtained a Series 24 license in March 1995. In February 1997, [REDACTED] registered with GunnAllen, and obtained Series 27 and Series 53 securities licenses in May 1997 and October 1997, respectively. During the relevant time period, [REDACTED] served as GunnAllen's Vice-President and Chief Financial Officer. [REDACTED] disciplinary history includes the September 29, 2003, NASD action against GunnAllen, in which [REDACTED] was fined \$5000, jointly and severally with GunnAllen.

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 it;
- 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 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.

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:

1. During the period from approximately April 2002 to at least August 2003, GunnAllen Financial, Inc. failed to implement its anti-money laundering ("AML") program in a manner that was reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act and the implementing regulations promulgated thereunder by the Department of Treasury. Specifically, GunnAllen's AML program requires that the firm obtain, within ten days of opening an account for a foreign bank, a model certifications to confirm that the bank is not a shell bank and is not providing service to foreign shell banks, and to verify ownership and agent information for the bank. The AML program further requires that an account be closed if the model certificates are not obtained within the required timeframe. During the relevant time period, the firm failed to obtain model certifications for the accounts of at least two foreign banks. The firm did not close the accounts within ten days as required by its AML program.

Such acts, practices, and course of conduct constitute separate and distinct violations NASD Conduct Rules 2110 and 3011 by GunnAllen Financial, Inc.

2. During the period from approximately March 2, 2002, through at least June 12, 2003, GunnAllen Financial, Inc., acting through [REDACTED]

[REDACTED] and Stephen I. Saunders, IV, permitted six registered representatives to act in a capacity requiring registration when such persons were deemed inactive for failing to complete the Regulatory Element of Continuing Education. The inactive periods for the registered representatives ranged from 1 day to 71 days.

Such acts, practices, and course of conduct constitute separate and distinct violations of NASD Membership and Registration Rule 1120(a) and NASD Conduct Rule 2110 by GunnAllen Financial, Inc., [REDACTED] and Stephen I. Saunders, IV.

3. During the period from approximately October 2001 through June 2003, GunnAllen Financial, Inc., acting through Stephen I. Saunders, IV:
 - a. failed to timely report information regarding at least fourteen customer complaints to NASD by the 15th day of the month following the calendar quarter in which the firm received the complaints. The filings ranged from 1 day to 272 days late. The firm also failed to file at all information regarding two customer complaints; and
 - b. failed to report within 10 business days information about: (1) a settlement of claim for damages against the firm and a registered representative in the amount of \$105,000; (2) settlement of a claim for damages against a registered representative exceeding 15,000; and (3) the receipt of a customer complaint alleging forgery.

Such acts, practices, and course of conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 3070 by GunnAllen Financial, Inc., and Stephen I. Saunders, IV.

4. During the period from approximately October 2001 through June 2003 GunnAllen Financial, Inc., acting through [REDACTED] failed to timely update the Form U-4's of three registered representative to disclose customer complaints. The updates ranged from 61 days to 114 days late. The firm failed to update at all the Form U-4's of three additionally registered representatives. Finally, the firm failed to timely update the Form U-5's of three former registered representatives to disclose settlements and/or arbitrations. The updates ranged from 117 days to 152 days late.

Such acts, practices, and course of conduct constitute separate and distinct violations of Article V, Sections 2 and 3 of NASD Bylaws and NASD Conduct Rule 2110 by GunnAllen Financial, Inc., and [REDACTED]

5. During the period from approximately January 1, 2003 to at least June 6, 2003, GunnAllen Financial, Inc., acting through Stephen I. Saunders, IV, failed to ensure that all new account forms contained the signature of a

partner, officer or manager accepting the account on behalf of the firm. Specifically, twelve of sixty new account applications reviewed by NASD staff did not contain a signature.

Such acts, practices, and course of conduct constitute separate and distinct violations NASD Conduct Rules 2110 and 3110 (c)(1)(C) by GunnAllen Financial, Inc. and Stephen I. Saunders, IV.

- B. Respondents also consent to the imposition, at a maximum, of the following sanctions:

GunnAllen Financial, Inc. is censured and assessed a monetary fine in the amount of \$30,000, of which \$11,250 is imposed jointly and severally with Stephen I. Saunders, IV, and \$8750 is imposed jointly and severally [REDACTED]

Stephen I. Saunders, IV is censured and assessed a monetary fine in the amount of \$11,250, to be imposed and severally with GunnAllen Financial, Inc.

[REDACTED] is censured and assessed a monetary fine in the amount of \$8,750, to be imposed and severally with GunnAllen Financial, Inc.

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

III.

OTHER MATTERS

- A. Respondents understand that they 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 NASD, nor does it reflect the views of NASD or its staff.
- B. Respondents agree to pay any monetary sanctions imposed on them upon notice that this AWC has been accepted and that such payments are due and payable and have attached Election of Payment forms showing the method by which they propose to pay any fine imposed.
- C. Respondents specifically and voluntarily waive any right to claim that they

are unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Respondents certify that they have read and understand all of the provisions of this AWC and have 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 them to submit it.

GunnAllen Financial, Inc.

11/29/04
Date

By: [Signature]
[Name and title]

11/29/04
Date

[REDACTED]

11/29/04
Date

[Signature]
Stephen I. Saunders, IV

Reviewed by:

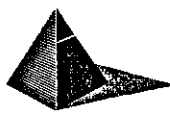
[Signature] 11/29/04
Counsel for Respondent
Richard M. Nuzzi Esq.

Accepted by NASD:

1-12-2005
Date

[Signature]
Virginia F. M. Jans
Associate V.P. and District Director

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



GunnAllenFinancial

November 23, 2004

Karen E. Whitaker
Regional Counsel
Dept. of Enforcement, NASD
12801 North Central Expressway, Suite 1050
Dallas, TX 75243

Re: Statement of Corrective Action
Examination/Investigation No. E07030060

Dear Ms. Whitaker:

This Corrective Action Statement is submitted by the Respondent (GunnAllen Financial, Inc.). The firm acknowledges that it does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD, or its staff.

GunnAllen Financial and its affiliated and associated persons are fully capable of complying with federal securities laws, the rules and regulations thereunder, and NASD Rules, including the observation of high standards of commercial honor and just and equitable principles of trade. The firm has undertaken a course of strong corrective actions including hiring personnel, implementing new technology and enacting new firm policies and procedures to address the findings in GunnAllen's 2003 NASD Examination.

GunnAllen Financial (hereinafter "GAF") firm hired Richard M. Nummi, Esq., from the Office of Compliance Inspections and Examinations of the United States Securities and Exchange Commission in July of 2003 to be its Chief Compliance Officer and Corporate Counsel. Mr. Nummi was advised by the CEO, Richard A. Frueh, that anything required to insure conformity and compliance with applicable securities rules and regulations was available upon request. Prior to assuming his role, Mr. Nummi conducted a comprehensive examination of the firm's existing: structure, policies and procedures, personnel tasked with execution. A prioritization was completed outlining the steps necessary to achieve complete conformity and allow for continued growth while addressing the supervisory

weaknesses inherent in a geographically dispersed registered representative sales force.

The first priority was to rewrite the firm's existing 71 page Written Supervisory Procedures ("WSP") to more fully address the various regulatory changes that had occurred in the period since its inception. The first draft of Mr. Nummi's WSP was circulated amongst the firm's senior staff in December of 2003 and following the inclusion of various editorial changes, was published completely in its first edition in February of 2004. The firm's WSP was designed to conform to the content expectations of the various securities regulators as experienced by Mr. Nummi while at the SEC. The second priority undertaken was to remove the GAF Compliance Department from its existing dual role of surveillance and supervision. Following Nummi's recommendation, the responsibility for field supervision was removed from Compliance and vested in a newly created supervisory structure headed by the firm's former COO, David M. McCoy who was redesignated "National Sales Supervisor". Additionally, positions for five geographically based "Regional Sales Supervisors" were created (currently two positions have been filled, Joseph Giordano, based in Long Island, NY and Steven Saunders, based in Tampa, FL and three remain open to be filled in the very near term). The resulting "hub and spoke" system of geographically dispersed field supervision allows the GAF Compliance Department to focus fully on the surveillance of daily trade activity and generation of "red flags" to the Field Supervision System for follow-up and trending analysis.

The third priority addressed by Mr. Nummi was to significantly expand and enhance the GAF Compliance Department by increasing the staff from its initial complement of five in 2003 to its current level of forty-eight (six branch examiners, ten books and records specialists, eleven surveillance analysts, three investment advisor analysts, six legal/customer complaint personnel, two advertising specialists, two data management specialists, four registration specialists, one licensing analyst and two registered representative/associated person background analysts). In addition, the staff has been more fully trained by attending a plethora of training courses relevant to their area and a new requirement that each member of the GAF Compliance Department obtain a Series 24 Principals license within one year of hiring. Mr. Nummi believes that while the firm experienced a phenomenal growth during the period of the examination, there wasn't a commensurate increase in compliance talent, resources or personnel. This changed upon his arrival and will continue to be addressed on an equal basis concurrent with the growth of the firm's representative count.

Mr. Nummi believes that the deficiencies identified by the NASD were primarily the result of the former CCO abruptly abandoning his position with little prior notification to the firm. As a result thereof, an inexperienced individual expressed interest and was allowed to assume the role of CCO (Mr. Saunders). Saunders, while motivated, was (as demonstrated by the NASD's findings), unable to meet

regulatory standards and expectations. By way of correction, the firm hired Mr. Nummi and after a lengthy transition, removed Saunders from his role in the Compliance Department. Mr. Saunders has been subsequently reassigned to oversight of the SE United States as a Regional Sales Supervisor. The items cited by the NASD in the 2003 Exam have been addressed by the hiring a professional Registrations and CRD specialist, Mr. Dennis Farrar. Mr. Farrar was hired in August 2003, from the Florida Department of Securities Regulation and has in excess of twenty (20) years experience in the securities industry. Under Mr. Nummi's direction, Mr. Farrar's primary assignment was to immediately ensure timely and proper CRD filings and the resolution of recurrent state licensing and regulatory reporting issues. In addition to Mr. Farrar, GAF hired Ms. Barbara Snead, former Director of Licensing and Registrations at INVEST Financial Corporation. Ms. Snead's primary role is to monitor and maintain an accurate representation of individuals placed on "inactive" status due to their failure to complete the regulatory element in a timely fashion. Inactive individuals are not permitted to receive any commissions which may have been due them during the time period they were barred from activities requiring registration; such commissions are not permitted to be paid to the individual upon his or her regaining an active status.

Additional staffing adds will help to insure that GAF maintains a state-of-the-art Compliance Department. Patrick Schroder was hired in the firm's Surveillance Department in September 2003. Mr. Schroder is currently the Director of Surveillance. Mr. Schroder has twelve (12) years in the securities industry. Mr. Schroder has been proactive in implementing GunnAllen's new surveillance system. The firm's surveillance system was recently enhanced by partnering with EAI Systems Inc., an established provider of securities surveillance systems to broker-dealers. The EAI System allows the firm's Compliance Department to conduct "global" surveillance of securities trading activity irrespective of clearing firm or direct transactions. Maria Tanner was hired in July 2004 as GunnAllen's Director of Advertising. Ms. Tanner has over twenty (20) years in the securities industry. Ms. Tanner is responsible for regulatory advertising filings, advertising and communication approvals, e-mail retention and do not call conformity. Aleicia Latimer was hired in November 2004 as Associate Counsel to enhance the legal capabilities of the firm. Ms. Latimer will specifically be in charge of the Human Resources Department and will conduct litigation and arbitrations for the firm. On August 23, 2004, the firm hired Edith Farnham as its AML Compliance Officer. Ms. Farnham has eleven (11) years of experience in the financial industry. Three (3) of those eleven (11) years were specifically as an AML Compliance Officer. Renee Emrick, a recent law school graduate with prior securities industry experience, was hired in September 2003 to supervise the complaint reporting/filing requirements at the GAF home office in Tampa. GAF's Legal/Compliance Department's current policy is to forward all complaints to the branch for an immediate written response and to file the appropriate amendment and/or reporting as required by NASD Rule 3070. As an additional incentive to forward complaints received by the branch, the firm instituted a fine of \$100.00

per day against the branch manager for each day in which a written customer complaint is held by the branch and not forwarded as required to Ms. Emrick for action. Proper timeliness of receiving and performing the filings will also apply to settlements.

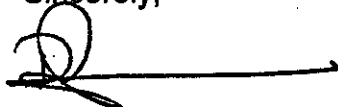
Ms. Emrick will also be responsible for timely filing U-4 and U-5 amendments. The \$100.00 per day fine will also be applicable for a failure of a representative in informing his/her branch manager and/or the Legal/Compliance Department.

GAF is firmly committed to working with the staff of NASD Regulation to achieve an excellent supervisory and compliant sales system. The firm is aware of recent industry cases such as Gruttadauria and the various issues that may arise from a firm's failure to adequately address supervision and sales conduct of far-flung registered representatives. GunnAllen is determined to address risk as it arises and sanction failure to supervise as uncovered. Each day the staff of GAF realizes the nature of the changing regulatory landscape. The firm has made eleven changes to its WSP since February of 2003 to address the shifting regulatory requirements. At over four hundred (400) pages, the WSP has also been enhanced by additional manuals created by the staff to address and strengthen its chosen sales model. Examples include a Regional Sales Manager's Manual, Supervisors Manual, Special Supervision Manual and a Compliance Manual.

In short, the firm will maintain adequate staffing, conduct the proper regulatory filings, and insure the safety and soundness of the assets granted to it by its clients in an exemplary manner.

Thank you for your consideration in this matter. If you have any questions, please call me at [REDACTED]

Sincerely,

A handwritten signature in dark ink, appearing to be 'R. Nummi', followed by a horizontal line extending to the right.

Richard M. Nummi, Esq.
CCO, AGC, EVP