

**NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT**

NO. E0120040028-03

**TO: Department of Enforcement
NASD**

**RE: Essex National Securities, Inc., Respondent
Member
CRD No. 25454**

Pursuant to Rule 9216 of NASD Code of Procedure, Respondent Essex National Securities, Inc. ("Essex" 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 in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against Respondent alleging violations based on the same factual findings.

I 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 Respondent; and
3. If accepted:
 - a. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against the Firm;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about Respondent's disciplinary record;
 - 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. 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 allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects Respondent's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

Respondent also understand that its 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:

Essex National Securities, Inc. has been a member of NASD since March 13, 1990. Essex does not have any relevant prior disciplinary action by NASD, other self-regulatory organizations, the Securities and Exchange Commission, or any state regulator.

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 the Firm;
- 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 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.

Respondent further specifically and voluntarily waive 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. The purpose of SEC Rule 15c3-3, the "Customer Protection Rule," is to ensure that brokers or dealers have proper safeguards in place to protect their customers' funds and qualified securities. Essex National Securities, Inc. ("Essex") was granted an exemption from the provisions of Rule 15c3-3 by the SEC, pursuant to Rule 15c3-3(k)(3), so long as it conformed to the terms and conditions set forth in Rule 15c3-3(k)(2)(i). Pursuant to those terms and conditions, the firm was not entitled to hold customer funds or safe keep customer securities, except through a bank account titled "Special Account for the Exclusive Benefit of Customers of Essex National Securities, Inc." that was created pursuant to Rule 15c3-3(f).

From at least June 1, 2004, through on or about July 31, 2004, Essex failed to comply with the requirements of SEC Rule 15c3-3(k)(2)(i) in that it delivered customer checks, which were received by Essex's registered representatives for purchases of variable annuities, to third-party insurance agencies for processing. The third-party insurance agencies processed approximately 210 variable annuity investments that totaled approximately \$7,129,397. Processing customer checks in this manner did not comply with the requirements of SEC Rule 15c3-3(k)(2)(i) and the firm lost its exemptive status under that provision. It was therefore required to comply with the full provisions of SEC Rule 15c3-3 for reserve accounts, including the requirement of Rule 15c3-3(e)(1) that it maintain at all times, through deposits in a "Special Reserve Bank Account for the Exclusive Benefit of Customers" ("Reserve Bank Account"), cash and/or qualified securities in amounts computed in accordance with the formula set forth in SEC Rule 15c3-3a. The Firm failed to create such a Reserve Bank Account or to make such deposits, although all customer funds were in fact used as the customers intended and no customers suffered any financial loss as a result.

The foregoing acts, practices and conduct constitute separate and distinct violations of SEC Rule 15c3-3 and NASD Conduct Rule 2110 by Respondent Essex.

2. From at least June 1, 2004, through on or about July 31, 2004, Essex made payments, or allowed payments to be made by the non-member third-party insurance agencies, of transaction-based commissions to the non-member third-party insurance agencies in connection with variable annuity sales. This conduct constitutes separate and distinct violations of NASD Conduct Rules 2420 and 2110 by Respondent Essex.
 3. During the period from at least March 13, 1990, through November 2004, Essex failed to establish and maintain a supervisory system and written supervisory procedures, reasonably designed to ensure the firm's compliance with SEC Rule 15c3-3, and NASD Conduct Rule 2420. This conduct constitutes separate and distinct violations of NASD Conduct Rules 3010 and 2110 by Respondent Essex.
- B. Respondent also consents to the imposition, at a maximum, of the following sanctions:
1. Respondent shall be censured and pay a total fine of \$60,000.

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

III.

OTHER MATTERS

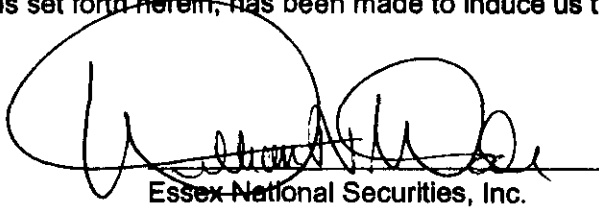
- A. Respondent understands that the Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that the Firm may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD or its staff.
- B. Respondent agrees to pay any monetary sanctions imposed on the Firm upon notice that this AWC has been accepted and that such payments are due and payable and have attached an Election of Payment form showing the method by which the Firm proposes to pay any fine imposed.
- C. Respondent specifically and voluntarily waives any right to claim that the Firm is unable to pay, now or at any time hereafter, any monetary sanction imposed in

this matter.

We certify that we 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 us to submit it.

1/29/05

Date


Essex National Securities, Inc.

By: William N. Wade [print name]

President [print title]

Reviewed by:

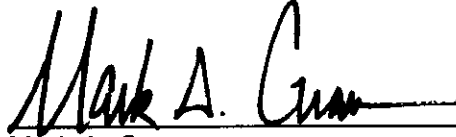


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Accepted by NASD:

December 7, 2005
Date

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



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