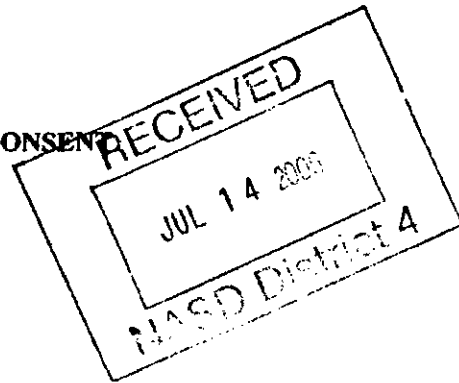


NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E0420050042-EX 02



**To: Department of Enforcement
NASD**

**Re: Feltl & Company
Member (CRD No. 6905)**

Pursuant to NASD Procedural Rule 9216, Feltl & Company ("Feltl"), 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 Feltl alleging violations based on the same factual findings.

Feltl understands 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 the National Adjudicatory Council ("NAC") Review Subcommittee or the Office of Disciplinary Affairs ("ODA"), pursuant to NASD Procedural Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Feltl; and
3. If accepted:
 - a. This AWC will become part of Feltl's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against Feltl;
 - b. This AWC will be made available through NASD's public disclosure program in response to public inquiries about Feltl's disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Procedural Rule 8310 and IM-8310-2; and
 - d. Feltl 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. Nothing in this provision affects Feltl's testimonial obligations or rights to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

Feltl also understands 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:

Feltl has been a member of NASD since September 1975. Feltl conducts a general securities business from its main office located in Minneapolis, Minnesota. Feltl had a prior disciplinary action in 1980 that is not relevant to this matter.

I. WAIVER OF PROCEDURAL RIGHTS

Feltl 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 Feltl;
- 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.

Furthermore, Feltl 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.

In addition, Feltl specifically and voluntarily waives any right to claim that a person violated the *ex parte* prohibitions of NASD Procedural Rule 9143 or the separation of functions prohibitions of NASD Procedural 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. Feltl 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 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:

Inadequate Research Procedures **NASD Conduct Rules 2110 and 2711(i)**

1. From March 10, 2005 through April 25, 2005, Feltl allowed one of its research analysts to complete five purchases of stocks in his personal accounts for two companies that were the subject of his research reports. These purchases fell within the restricted period of 30 days before and five days after the publication of a research report pursuant to NASD Conduct Rule 2711(g)(2).
2. Feltl's written supervisory procedures did not set forth that research analysts were prohibited from trading shares of the companies covered in their research reports during the period 30 days before and five days after the publication of a research report. In addition, the procedures did not adequately define what constitutes a research report.
3. By failing to adopt and implement written supervisory procedures reasonably designed to ensure compliance with NASD Conduct Rule 2711, Feltl violated NASD Conduct Rules 2711(i) and 2110.

Disclosure Requirements for Research Reports **NASD Conduct Rules 2711(h)(10), 2210(d)(1)(B) and 2110**

4. In 22 research reports published from December 22, 2004 through November 24, 2005, Feltl disclosed that the research analyst held a financial interest in the securities of the subject company. However, due to the ambiguous language in the disclosure, the nature and ownership of this financial interest was unclear.
5. In addition, twenty of these research reports were misleading in that they stated they were not research reports, when in fact they contained information reasonably sufficient upon which to base an investment decision and should have been considered research reports pursuant to NASD Conduct Rule 2711(a)(8).
6. Through these ambiguous and misleading disclosures in the research reports, Feltl violated NASD Conduct Rules 2711(h)(10), 2210(d)(1)(B) and 2110.

SANCTIONS

Feltl consents to the imposition, at a maximum, to the following sanctions of:

1. A censure; and
2. A fine of \$10,000.

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

III. OTHER MATTERS

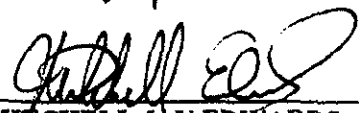
- A. Feltl understands that it may attach a Statement of Corrective Action to this AWC, which is a statement of demonstrable corrective steps taken to prevent future misconduct. Feltl understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement.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

Feltl certifies that this AWC has been read and that all provisions of this AWC are understood, and that Feltl has 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 Feltl to submit it.

~~FELTL FINANCIAL SERVICES, INC.~~
~~Feltl & Company~~

7/13/2006
Date

By:


MITCHELL JAY EDWARDS

Reviewed by:


Counsel for Feltl & Company
F. CHET TAYLOR
TAYLOR LAW OFFICE, PLLC

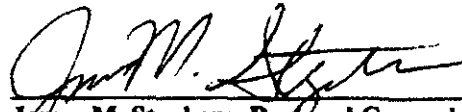
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Accepted by NASD:

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

July 19, 2006

Date



James M. Stephens, Regional Counsel

NASD District Director

**Thomas D. Clough
120 West 12th Street, Suite 900
Kansas City, MO 64105
(816) 802-4700**

STATEMENT OF CORRECTIVE ACTION

**FELTL & COMPANY
NASD MATTER NO. E0420050042**

This Statement of Corrective Action is submitted by the Respondent, Feltl & Company ("F&C"). It does not constitute factual or legal findings by the NASD, nor does it reflect the views of the NASD or its staff.

Immediately after the NASD audits that identified the alleged violations referenced in the Acceptance, Waiver, and Consent ("AWC") – and in some cases, while the NASD audit staff was still on site – F&C took steps to remedy each problem. Specifically, F&C did the following: (i) amended its research-related written supervisory procedures to correct the insufficiencies that the NASD identified; (ii) modified the disclosures and disclaimers that appear on each research report; and (iii) treated all "monitor" reports as research reports.