

(E9B020042)

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E9B02004201

TO: Department of Enforcement
NASD

RE: Hennion & Walsh, Inc., Respondent
Member
[BD No. 25766]

William W. Walsh, Respondent
General Securities Principal
[CRD No. 1174993]

Richard Hennion, Respondent
General Securities Principal
[CRD No. 1315386]

Pursuant to Rule 9216 of NASD Code of Procedure, 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 us alleging violations based on the same factual findings.

We 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 us; and
3. If accepted:
 - a. this AWC will become part of our permanent disciplinary records and may be considered in any future actions brought by NASD or any other regulator against us;

- b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about our disciplinary records;
- 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. We 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 our testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

We also understand that our experiences in the securities industry and disciplinary histories may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

Hennion & Walsh, Inc. ("H & W") was admitted to membership in the NASD in 1990. H & W engages in a general securities business and clears all of its transactions on a fully disclosed basis through another member. It focuses primarily on retail sales of fixed income products including closed-end fixed income mutual funds. It has a formal disciplinary history that includes an AWC (C8A000071) accepted in 2000, finding that H & W failed to establish and enforce written supervisory procedures in violation of NASD Conduct Rules 2110 and 3010(b), and imposing a \$5,000 fine. In addition, in January 2005, H & W was found to have failed to establish a reasonable supervisory system and procedures in violation of NASD Conduct Rules 3010 and 2110 in Disciplinary Action No. C9B040013.

William W. Walsh ("Walsh") entered the securities industry in 1983 as a municipal securities representative of a NASD member. Walsh is currently registered with H & W as a general securities and municipal representative and as a general securities principal. He is a part owner of H & W and serves as its president. Since 1983, Walsh's only disciplinary issue is the January 2005 decision described above wherein it was found that he failed to supervise in violation of NASD Conduct Rules 3010 and 2110.

Richard Hennion ("Hennion") entered the securities industry in 1984 as a general securities representative of a NASD member. Hennion has been registered by H & W since 1989 and is currently registered as an equity trader and general securities principal, among other registrations. He is also a part owner of H & W and serves as executive vice president of H & W. Hennion was also named in the

January 2005 decision discussed above. Specifically, Hennion was found in violation of NASD Conduct Rules 2310, 2510(a), 2510(b) and 2110 in that he made unsuitable recommendations to a customer and further exercised discretion in the customer's account without written authorization.

I.

WAIVER OF PROCEDURAL RIGHTS

We specifically and voluntarily waive the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against us;
- 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, we 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.

We 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. We hereby accept and consent, 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 July 2001 through July 2003, H & W failed to report 59 written grievances from customers (which dealt principally with operational issues) on quarterly reports required by NASD Rule 3070, and further reported seven written grievances from customers on quarterly reports required by NASD Rule 3070 in an untimely manner, in violation of NASD Conduct Rules 2110 and 3070.
2. During the period from June 10 through June 24, 2002, prior to the effective date for two separate underwritings of closed-end mutual funds, H & W solicited and received payment from at least 28 customers for the purchase of shares in the underwritings, in violation of Section 5(a) of the Securities Act of 1933 and NASD Conduct Rule 2110.
3. During the period from at least January 2000 through December 2002, H & W, acting through both William Walsh and Richard Hennion, failed to establish and maintain a supervisory system and written supervisory procedures that were reasonably designed to supervise the activities of each registered representative associated with H & W to achieve compliance with the applicable securities laws and regulations and the rules of the NASD.

Specifically, H & W failed to establish a system to review and monitor the sale of investment company securities, in that its procedures did not provide specific guidance for the review and documentation of the review of recommended mutual fund switches. In addition, its procedures did not require that switch letters be reviewed for suitability concerns by the compliance department. Further, H & W participated in approximately six underwritings of closed-end mutual funds during 2002. H & W failed to have written supervisory procedures addressing the underwriting of closed-end mutual funds. In addition, H & W failed to establish a system to review and monitor the sale of municipal fixed income securities, in that its procedures did not provide specific guidance for the review and documentation of the review of recommended bond swaps.

As a result of the forgoing failures, H & W, Walsh and Hennion violated NASD Conduct Rules 2110, 3010(a) and 3010(b) as well as MSRB Rule G-27.

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

Hennion & Walsh, Inc. is fined \$35,000.

Hennion & Walsh, Inc. is further suspended from participating as an underwriter or selling group member for any offering of closed-end mutual funds for a period of 30 calendar days.

Walsh is fined \$15,000 jointly and severally with Hennion & Walsh (this \$15,000 is included in the \$35,000 fine indicated above) and is suspended as a general securities principal for a period of 10 business days, the commencement of which shall immediately follow the expiration of the suspension imposed by the Decision dated January 10, 2005 in Disciplinary Proceeding No. C9B040013.

Hennion is fined \$15,000 jointly and severally with Hennion & Walsh (this \$15,000 is included in the \$35,000 fine indicated above) and is suspended as a general securities principal for a period of 10 business days, the commencement of which shall immediately follow the expiration of the suspension imposed by the Decision dated January 10, 2005 in Disciplinary Proceeding No. C9B040013.

H & W shall further retain, within 60 days of the acceptance of the AWC, an independent consultant acceptable to the NASD to review and make recommendations concerning the adequacy of the firm's current policies and procedures as they relate to the deficiencies and violations found in the Decision dated January 10, 2005 in Disciplinary Proceeding No. C9B040013 as well as the deficiencies noted above, including H & W's Rule 3070 reporting, underwriting activities, and suitability of recommendations such as bond swaps and mutual fund switches. The consultant will provide a report to H & W and to the NASD. H & W will adopt all recommendations deemed appropriate by the consultant.

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

III.

OTHER MATTERS

A. We understand that we may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future

misconduct. We understand that we 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. We agree to pay any monetary sanctions imposed on us 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 we propose to pay any fine imposed.
- C. We specifically and voluntarily waive any right to claim that we are unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.
- D. We understand that if we are barred or suspended from associating with any NASD member, we become subject to a statutory disqualification as that term is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended. Accordingly, we may not be associated with any NASD member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension. (See NASD Rule 8310 and IM-8310-1.)

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 me to submit it.

7/13/05

Date

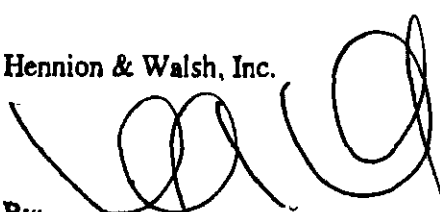
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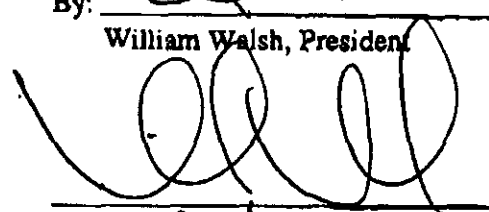
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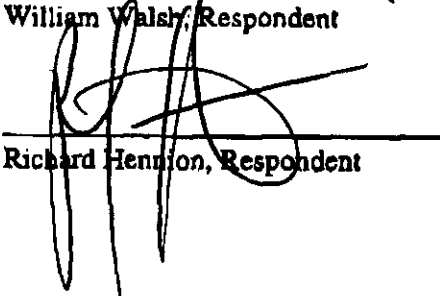
Hennion & Walsh, Inc.

By: 

William Walsh, President



William Walsh, Respondent



Richard Hennion, Respondent

HENNION & WALSH, INC.
SPECIALISTS IN TAX FREE BONDS • FULL SERVICE BROKER DEALER

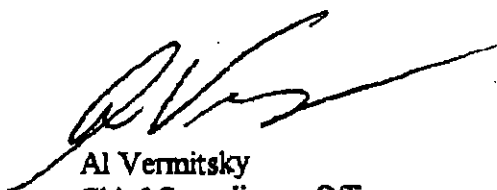
CORRECTIVE ACTION STATEMENT

Hennion & Walsh has taken the following steps to deal with the issues raised in the AWC:

Complaints – Sales Practice and Operational – Hennion & Walsh has distributed a memorandum to its personnel who deal with the intake of correspondence which defines more specifically what constitutes a complaint for purposes of NASD Rule 3070 reporting.

Underwriting – Hennion & Walsh has sent a compliance memorandum to all of its sales personnel setting forth the firm's policy prohibiting its personnel from accepting monies specifically designated for the purchase of securities prior to the effective date of the registration statement.

Supervision – H & W has added compliance personnel to assist in performing its supervisory obligations with respect to the daily business activities of the firm. In addition it has adopted new procedures and is utilizing additional surveillance reports to monitor trading activity. The enhanced procedures include a new switch letter.



Al Vermitsky
Chief Compliance Officer