

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E9B2004002202

TO: Department of Enforcement
NASD

RE: **Cantone Research, Inc.**
BD No. 26314
766 Shrewsbury Avenue
Tinton Falls, NJ 07724

Pursuant to Rule 9216 of NASD Code of Procedure, Cantone Research, Inc. ("Cantone") 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 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 record 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 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. 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 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:

Cantone has been a member since July 1990. The firm employs approximately 26 registered persons and conducts a general securities business. Cantone has been the subject of three prior disciplinary actions. Cantone's prior disciplinary history is summarized as follows:

- In or about June 2003, Cantone was censured and fined \$7,500 for OATS reporting violations and deficient written supervisory procedures;
- In or about January 2003, Cantone was censured and fined \$7,000 for limit order display violations; and
- In or about September 1999, Cantone was fined \$3,000 for order handling violations and deficient written supervisory procedures.

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:

- At various times from on or about May 1, 2003 through March 31, 2004, Cantone issued 9 research reports that each failed to disclose a distribution of ratings current as of the end of the most recent calendar quarter. As a result of such conduct, Cantone violated NASD Conduct Rules 2711(h)(5)(C) and 2110;
- At various times from on or about May 1, 2003 through March 31, 2004, Cantone issued 13 research reports that each failed to contain a statement by the research analyst certifying that the views expressed in the research report accurately reflect such research analyst's personal views about the subject securities and issuers. As a result of such conduct, Cantone acted in contravention of SEC Regulation AC and violated NASD Conduct Rule 2110;
- A review of fifty-six (56) municipal transactions executed by the firm between September 1, 2003 and February 29, 2004, revealed that three (3) of the trades or 5.5% were reported late by the firm and seven (7) of the trades or 12.9% were reported without a yield. As a result of such conduct, Cantone violated MSRB Rules G-14 and G-27; and
- At various times during 2003 and 2004, Cantone failed to adopt and implement written supervisory procedures that were reasonably designed to ensure compliance with the provisions of MSRB Rule G-14. As a result of such conduct, Cantone violated MSRB Rule G-27.

B. Cantone also consents to the imposition, at a maximum, of the following sanctions:

A censure and \$20,000 fine.

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

III.

OTHER MATTERS

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

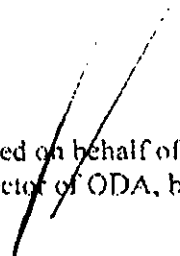
We certify that we have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce us to submit it.

9-9-05
Date


Anthony J. Cantone
President of Cantone Research, Inc.

Accepted by NASD:

9/20/05
Date


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

David B. Klafter
Regional Counsel
NASD Department of Enforcement
581 Main Street, 7th Floor
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NASD District Director

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