

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. EAF0400570001

TO: Department of Enforcement
NASD

RE: Brookstreet Securities Corp., Respondent (BD No. 14667)
Stanley Brooks, Respondent (CRD No. 31684)
Kathleen M. McPherson, Respondent (CRD No. 1526361)

Pursuant to Rule 9216 of NASD Code of Procedure, Brookstreet Securities Corp., Stanley Brooks and Kathleen M. McPherson (each a "Respondent" and 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;
 - 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 finding 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:

Brookstreet Securities Corp. ("Brookstreet") became a member of NASD on or about January 15, 1985. Brookstreet is a full service broker, headquartered in Irvine, California and has supervisory responsibility for approximately 550 registered representatives and 150 associated persons in more than 300 branch offices.

Stanley Brooks ("Brooks") entered the securities industry as a general securities representative in 1971. Brooks has been associated with Brookstreet as its President and as a General Securities Principal from November 1989 through the present.

Kathleen M. McPherson ("McPherson") entered the securities industry in 1978 and has been registered with Brookstreet since March 1992. She has been a registered principal since 1993 and served as Brookstreet's Compliance Director from January 2002 through November 2004. She currently serves as Brookstreet's Executive Vice President for Administration and has had that position since April 2001.

Respondents' relevant disciplinary history is as follows:

AWC E022003004602: In January 2006, Brooks and First Securities USA, Inc.¹ agreed to an AWC finding that First Securities, acting through Brooks, failed to commence and complete the firm's compliance inspections in accordance with their membership agreement. In so doing, he violated, or caused First Securities to violate, NASD Conduct Rules 2110 and 3010. The AWC fined Brooks \$60,000.00, jointly and severally with First Securities and suspended him in his supervisory capacity for two years.

AWC E0220030154-02: In December 2005, Brooks and Brookstreet agreed to an AWC finding that Brookstreet, acting through Brooks, failed to establish, maintain and enforce a system of supervisory control, policies and procedures reasonably designed to prevent Brookstreet from issuing payments to non-registered recruiters and, as a result, paid six (6) recruiters who were not registered with a NASD form transaction based compensation based on a percentage of the commissions earned by the registered representatives the recruiters placed with the firm. The AWC imposed a \$25,000 fine, joint and several, on Brooks and Brookstreet and censured both.

¹ First Securities USA, Inc. (CRD 39986), an affiliate of Brookstreet Securities, terminated registration as a BD effective January 23, 2006. First Securities USA, Inc. has not conducted a securities business since 2003, and on November 23, 2005, the firm filed a Form BDW, which requested a full withdrawal of its registration with NASD.

AWC C02040031: In August 2004, Brooks and Brookstreet agreed to an AWC finding that Brookstreet, acting through Brooks, failed to supervise a registered representative's private placement transactions, violating NASD Rules 2110 and 3010. The AWC imposed a \$10,000 fine, joint and several, on Brooks and Brookstreet, censured both and required the firm to demonstrate, within 90 days, that Brookstreet has established procedures for the review and investigation by a designated principal of all information provided on Form U4, Uniform Application for Securities Industry Registration.

AWC C02030010: In February 2003, Brooks, McPherson and Brookstreet consented to an AWC finding that Brooks and Brookstreet failed to implement, maintain, and enforce a reasonable supervisory system and procedures to comply with, and to detect and prevent violations of, NASD rules by the firm's registered representatives. The AWC imposed \$100,000 fines on Brooks and Brookstreet, jointly and severally, and a \$25,000 fine on McPherson, joint and several with the firm; suspended Brooks in a principal capacity for 30 days; suspended McPherson in a principal capacity for 15 days; and required Brookstreet to hire a consultant and adopt recommendations regarding supervision.

I.

WAIVER OF PROCEDURAL RIGHTS

Respondents 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 Respondents;
- 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, Respondents 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.

Respondents 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. Respondents hereby accept and consent, 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:

SUMMARY

1. From January 1, 2002 through June 17, 2005 (the "Relevant Period"), Brookstreet failed to file in a timely manner certain amendments to Form U4 (Question 14 – Disclosure Questions) and Form U5 (Question 7 – Disclosure Questions), and certain initial Form U5 termination filings as required by NASD By-Laws, Article V, Sections (2)(c), 3(a), and 3(b) (the "Article V Reporting Obligations"). The late disclosure items pertained to certain individuals' reportable customer complaints, arbitrations, litigations, regulatory investigations, regulatory actions, and terminations. Brookstreet's failure to comply with the Article V Reporting Obligations may have hampered the investing public's ability to assess the background of certain brokers through NASD's public disclosure program, rendered certain information unavailable to member firms making hiring determinations, may have reduced the ability of state securities regulators to review applications by brokers to transfer firms, and may have hindered NASD from promptly investigating certain disclosure items.
2. During the Relevant Period, Brookstreet's supervisory system and procedures were not reasonably designed to achieve compliance with its Article V Reporting Obligations.
3. From January 1, 2002 to May 1, 2004, Brooks and McPherson shared responsibility for Brookstreet's supervisory system and procedures relating to the firm's Article V Reporting Obligations. During this time period, McPherson was responsible for supervising Brookstreet's registration department, and Brooks was responsible for supervising McPherson. Brookstreet's supervisory system and procedures relating to the firm's Article V Reporting Obligations were inadequate to ensure filings were made within the prescribed time limits and Brooks and McPherson failed to take appropriate steps to address and correct these inadequacies.

**BROOKSTREET FAILED TO FILE AMENDMENTS
TO FORMS U4 AND U5, AND INITIAL FORM U5s,
IN A TIMELY MANNER**

4. Article V, Section 2(a), of NASD's By-Laws provides that application for registration with NASD by any person shall be made by a process established by NASD and on a prescribed form signed by the applicant. Section 2(c) provides that every application for registration (Form U4) filed with NASD shall be kept current at all times by supplementary amendments which must be filed within 30 days after learning of the facts or circumstances giving rise to the amendment. The filing must be made within ten days, however, if the amendment involves disclosure of a statutory disqualification as defined in Section 3(a)(39) and Section 15(b)(4) of the Securities Exchange Act of 1934.
5. Article V, Section 3(a) of NASD's By-Laws provides that following the termination of the association with a member of a person who is registered with it, such member shall, not later than 30 days after such termination, file notice of such termination with NASD.
6. Article V, Section 3(b) of NASD's By-Laws provides that, in the event a member learns of facts or circumstances causing any information set forth in a termination notice (Form U5) filed with NASD to become inaccurate or incomplete, the member must notify NASD, within 30 days thereafter, of those facts or circumstances by means of an amendment to the termination notice.
7. During the Relevant Period, Brookstreet filed over 181 late amendments to Forms U4 and U5, which represented a significant percentage of the required amendments relating to reportable customer complaints, arbitrations, litigations, regulatory investigations, and regulatory actions. During the Relevant Period, Brookstreet filed at least one late initial U5 termination filing.
8. Based on the foregoing, Brookstreet acted in contravention of Article V, Sections 2(c), 3(a) and 3(b) of NASD's By-Laws and violated NASD Conduct Rule 2110

**BROOKSTREET, BROOKS AND MCPHERSON FAILED TO ESTABLISH,
MAINTAIN AND ENFORCE AN ADEQUATE SUPERVISORY SYSTEM AND
PROCEDURES RELATING TO ARTICLE V REPORTING OBLIGATIONS**

9. During the Relevant Period, Brookstreet's supervisory system and procedures were not reasonably designed to achieve compliance with its Article V Reporting Obligations.
10. During the Relevant Period, Brookstreet did not have adequate policies or procedures designed to ensure reportable items were forwarded to the firm's registration department and filed in a timely manner with the NASD. These reportable items included, but were not limited to, written customer complaints, resolved written

customer complaints, oral complaints that triggered reporting obligations, notices of arbitration or arbitration decisions, settled customer complaints and arbitrations, communications relating to regulatory actions, such as AWC's, Complaints and regulatory decisions and termination of registered representatives and information about such terminations. The firm's policies and procedures also failed to enumerate or explain which types of events are reportable for U4 or U5 purposes, and the firm had no system monitor the filing of the U4/U5 amendments to ensure timeliness, to provide for supervisory reviews with respect to the firm's compliance with Article V Reporting Obligations, and to document supervisory reviews. In addition, Brooks and McPherson assigned responsibility for filing amendments to Forms U4 and U5 to a non-registered clerical employee in the registration department and Brookstreet did not have adequate policies or procedures with respect to that individual's duties.

11. On certain occasions, Brookstreet's registration department submitted amendments to Forms U4 and U5 with electronic signatures before those amendments were received, reviewed and approved by a registered principal of the firm.
12. From January 1, 2002 to May 1, 2004, Brooks and McPherson shared responsibility for Brookstreet's supervisory system and procedures relating to the firm's Article V Reporting Obligations. During this time period, McPherson was responsible for supervising Brookstreet's registration department, and Brooks was responsible for supervising McPherson.
13. From January 1, 2002 to May 1, 2004, Brooks and McPherson were aware or should have been aware that: reportable items were not being reported to the NASD on a timely basis; that the firm's policies and procedures were inadequate to ensure that reportable items be reported to the NASD on a timely basis; that the firm's written supervisory procedures failed to properly designate registered principals for supervision of electronic filing of forms and failed to take appropriate steps to address and correct the above-referenced inadequacies in Brookstreet's supervisory system and procedures described herein.
14. From January 1, 2002 to May 1, 2004, Brookstreet designated McPherson as the registered principal responsible for supervising registration functions related to filing of Forms U4, U5, and amendments. However, McPherson delegated authority to enter U4 amendments electronically to a non-registered clerical employee who, in certain instances, entered such amendments before they had been reviewed or approved by McPherson or another properly designated principal of the firm. McPherson knew and approved of instances in which the registration department submitted U4 filings to NASD's Central Registration Depository before a registered principal of the firm received, reviewed, or signed the filings. .
15. Until May 2004, Brooks reserved for himself responsibility for signing U5 filings, including amendments. From time to time, Brooks also signed U4 amendments for the firm, although he did not supervise registration functions related to filing of Forms U4, U5, or amendments. Brooks knew and approved of the registration department's

submitting U4 and U5 filings with Brooks' electronic signature before Brooks received, reviewed or signed these filings.

16. Based on the foregoing, Respondents violated NASD Conduct Rules 2110, 1140 and 3010.

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

Stanley Brooks:

- A fine of \$35,000; and
- A 60 day suspension from associating with any NASD member firm, in any supervisory capacity, commencing at the conclusion of his two-year supervisory suspension imposed pursuant to AWC E0220030046-02.

Kathleen McPherson:

- A fine of \$25,000, payable jointly and severally with Brookstreet; and
- A 45 calendar-day suspension from associating with any NASD member firm in any principal capacity.

Brookstreet:

- A censure;
- A fine of \$200,000, \$25,000 of which is payable jointly and severally with McPherson; and
- Brookstreet shall comply with the following undertakings within the time periods specified (unless otherwise extended in writing by NASD staff):

1. Required Audits and Officer Certifications Relating to Article V Reporting Obligations

- a. Promptly following notice of acceptance of this AWC, Brookstreet shall retain an Independent Examiner, not unacceptable to NASD staff, to conduct an audit to assess the effectiveness of Brookstreet's system and procedures for ensuring the timely filing of amendments to Form U4 (Question 14) and amendments to Form U5 (Question 7), and initial U5 termination filings, for the period July 1, 2004 through December 31, 2006, and shall prepare a written audit report ("Current Audit Report") summarizing their findings and recommendations. The Current Audit Report shall describe the method and scope of the audit, list all late filings, if any, identified for the period covered

by the audit, and make any appropriate recommendations to improve the firm's system and procedures to prevent late filings.

- b. Brookstreet shall exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Examiner. Brookstreet shall cooperate with the Independent Examiner in all respects, including by providing staff support. Brookstreet shall place no restrictions on the Independent Examiner's communications with NASD staff and, upon request, shall make available to NASD staff any and all communications between the Independent Examiner and the firm and documents reviewed by the Independent Examiner in connection with his or her engagement. Once retained, Brookstreet shall not terminate the relationship with the Independent Examiner without the NASD staff's written approval; Brookstreet shall not be in and shall not have an attorney-client relationship with the Independent Examiner and shall not seek to invoke the attorney client privilege or other doctrine or privilege to prevent the Independent Examiner from transmitting any information, reports or documents to the NASD.
- c. No later than 60 days after notice of acceptance of this AWC, the Independent Examiner shall submit to Brookstreet and NASD staff the Current Audit Report. Brookstreet's Chief Compliance Officer shall certify in writing to NASD staff that (i) Brookstreet retained the Independent Examiner to conduct the audit required by paragraph 1.a. above and prepare the Current Audit Report, and (ii) such officer has reviewed the Current Audit Report.
- d. No later than 30 days after the date of the Current Audit Report, Brookstreet's Chief Compliance Officer shall certify in writing to NASD staff that Brookstreet has implemented any recommendations set forth therein, or has engaged in a process that will result in the implementation of any such recommendations within a reasonable time period to be specified in such written certification.
- e. Brookstreet's Chief Compliance Officer shall, for each of the three calendar quarters beginning third quarter 2007, conduct an audit as described in paragraph 1.a. above and prepare a written audit report ("Quarterly Audit Report") summarizing their findings and recommendations. The Quarterly Audit Report shall describe the method and scope of the audit, list all late filings, if any, identified for the period covered by the audit, and make any appropriate recommendations to improve the firm's system and procedures to prevent late filings.
- f. No later than 60 days after the last day of the third quarter 2007, Brookstreet's Chief Compliance Officer shall certify in writing to NASD staff that (i) Brookstreet conducted the audit required by paragraph 1.e. above and prepared a Quarterly Audit Report, (ii) such officer has reviewed the Quarterly Audit Report, and (iii) Brookstreet has implemented any

recommendations set forth therein, or has engaged in a process that will result in the implementation of any such recommendations within a reasonable time period to be specified in such written certification.

- g. Officer Certification Relating to Article V Reporting Obligations. No later than 6 months after notice of acceptance of this AWC, Brookstreet's Chief Compliance Officer shall certify in writing to NASD that Respondent has reviewed its system and procedures for complying with its Article V Reporting Obligations and has established a system and procedures reasonably designed to achieve compliance with the reporting requirements set forth therein.

2. Notice and Certification Regarding Changes in Supervisory System and Personnel.

- a. Brookstreet represents that it has implemented supervisory systems and procedures wherein Mr. Brooks does not exercise any supervisory responsibilities at Brookstreet (hereinafter, the "System").
- b. For a period of two years beginning on the first business day after Mr. Brooks' supervisory suspension imposed pursuant to this AWC, described herein at Sec. II(B), Mr. Brooks and one additional Brookstreet officer who is registered with NASD, agree to and shall provide written notice ("Notice") regarding any revisions, modifications, or other changes in the firm's System resulting in Mr. Brooks assuming or exercising any supervisory responsibility at Brookstreet to the District Director of NASD's Los Angeles, California District Office. Such written notice shall specify in detail the area(s) in which Mr. Brooks shall be assuming or exercising supervisory responsibility at Brookstreet, as well as the applicable system and procedures that the firm has in place to govern Mr. Brooks' exercise of his new supervisory responsibility (the "Revised System").
- c. Mr. Brooks and one additional Brookstreet officer who is registered with NASD shall certify in writing to NASD that the Revised System is reasonably designed to achieve compliance with all applicable NASD Rules and federal securities laws (the "Certification").
- d. Mr. Brooks and one additional Brookstreet officer who is registered with NASD shall provide such Notice and Certification at least sixty (60) days prior to any such revision, modification, or other change in the firm's Revised System taking effect.

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

III.

OTHER MATTERS

- A. Respondent understands that it may attach a Corrective Action Statement dated October 2006 to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent further 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. Respondent 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 and have attached an Election of Payment form showing the method by which it proposes to pay any fine imposed.
- C. Respondent 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.

Respondent certifies that it has read and understands all of the provisions of this AWC and 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 it to submit the AWC.

Brookstreet Securities Corp.

Date: June 6, 2007

By: Kathleen M. McPherson

Name: _____

Title: _____

Date: May ____, 2007

Stanley Brooks, Respondent

Date: June 6, 2007

Kathleen M. McPherson
Kathleen M. McPherson, Respondent

Reviewed by:

Anthony W. Djinis
Anthony W. Djinis, Esq.
Pickard and Djinis LLP
1990 M Street, N.W.
Washington, D.C. 20036
Counsel for Respondents

Accepted by NASD:

May ____, 2007

Katherine A. Malfa, Esq.
Vice President and Chief Counsel
Department of Enforcement, NASD
1801 K Street, NW
Washington, DC 20006

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

Respondent certifies that it has read and understands all of the provisions of this AWC and 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 it to submit the AWC.

Brookstreet Securities Corp.

Date: May __, 2007

By: _____

Name: _____

Title: _____

Date: ^{June} May 11, 2007

Stanley Brooks, Respondent

Date: May __, 2007

Kathleen M. McPherson, Respondent

Reviewed by:

Anthony W. Djinis, Esq.
Pickard and Djinis LLP
1990 M Street, N.W.
Washington, D.C. 20036
Counsel for Respondents

Accepted by NASD:

June 30, 2007
May 1, 2007

Katherine A. Malfa, Esq.
Vice President and Chief Counsel
Department of Enforcement, NASD
1801 K Street, NW
Washington, DC 20006

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