

**Disciplinary Panel
American Stock Exchange LLC**

IN THE MATTER	:	Case No. 02-41
	:	[AMXC07004]
OF	:	
	:	Hearing Officer – RSH
PRUDENTIAL EQUITY GROUP, LLC	:	
f/k/a	:	DECISION
PRUDENTIAL SECURITIES, INC.	:	
	:	April 30, 2007

In accordance with a Stipulation of Facts and Consent to Penalty, the Disciplinary Panel Chair determined that Respondent violated Exchange Rules 320 and 411 as stipulated, and as a penalty imposed a censure and a \$35,000 fine.

I. Introduction

The American Stock Exchange, LLC (“Exchange”) instituted a formal disciplinary proceeding against Prudential Equity Group, LLC (“Prudential” or the “Firm”), a Regular Member Organization of the Exchange, formerly known as Prudential Securities, Inc. (“PSI”). The Disciplinary Panel Chair (“Chair”), presiding without convening a full Disciplinary Panel, pursuant to Article V, Section 1(b) of the Exchange Constitution, held a hearing¹ on March 23, 2007, pursuant to Article V, Section 2 of the Exchange Constitution, to review a Stipulation of Facts and Consent to Penalty (“Stipulation”), which is attached as Exhibit A. The Exchange and Prudential entered into the Stipulation for the purposes of settling this proceeding and concluding all disciplinary actions by the Exchange against Prudential based upon or arising out of the facts set forth in the Stipulation.

¹ Respondent Prudential Equity Group, LLC was not present.

II. Facts

Prudential, without admitting or denying liability, stipulated to the facts set forth in the attached Stipulation. The Chair has determined to accept the facts for purposes of this Decision, and they are incorporated herein.

III. Violations

Based upon the stipulated facts, the Chair concludes that PSI and/or individual PSI specialists:

(1) violated Exchange Rule 411 in August 2000 by failing to: a) delegate to qualified principals or employees responsibility and authority for supervision and control of those departments responsible for the amount and types of credit extended by PSI to a customer; b) provide for appropriate procedures of supervision and control with respect to the amount and types of credit extended by PSI to a customer; c) establish a separate system of follow-up and review to verify that the delegated authority and responsibility was being properly exercised in connection with the amount and types of credit extended by PSI to a customer; and d) diligently supervise its employee's customer account with a view toward the amount of credit extended to a customer; and

(2) violated Exchange Rule 320 by failing to establish and maintain appropriate policies, systems and procedures of supervision and control, including written supervisory procedures and failed to establish a separate system of follow up and review to ensure adequate supervision with the amounts and types of credit it extended to its customer.

IV. Penalties and Publicity

The Stipulation proposes that the Chair impose on Prudential a censure and a \$35,000 fine.

After considering the stipulated facts and the statements of the parties, as well as the decisions cited in the Exchange's precedent memorandum, the Chair finds that the proposed penalty is appropriate under the facts and circumstances of this case, and therefore it will be imposed. The Chair further finds that the results of this disciplinary proceeding should be publicly disclosed, as provided in Rule 12 of the Exchange Rules on Disciplinary Proceedings.²

V. Conclusion

The Chair accepts the Stipulation of Facts and Consent to Penalty and hereby imposes upon Prudential Equity Group, LLC a censure and a \$35,000 fine.

FOR THE DISCIPLINARY PANEL


Rochelle S. Hall, Chair

Copies to: Prudential Equity Group, LLC (*via overnight courier and first class mail*)
Andrew W. Sidman, Esq. (*via facsimile and first class mail*)
Jennifer D. Kim, Esq. (*electronically and via first class mail*)
Arlene Collins-Day (*electronically and via first class mail*)

² Rule 12 exempts from publicity those cases in which the Panel finds that the offense "related solely to minor administrative requirements of the Exchange and does not materially affect the public interest or the interest of investors." That exemption does not apply to the facts of this case.

EXHIBIT A

Disciplinary Panel
American Stock Exchange LLC

.....	x	
	x	
IN THE MATTER	x	STIPULATION OF FACTS
OF	x	AND
PRUDENTIAL EQUITY GROUP, LLC	x	CONSENT TO PENALTY
formerly known as	x	
PRUDENTIAL SECURITIES, INC.	x	Case No. 02-41
.....	x	

This proceeding was instituted by the American Stock Exchange LLC (“AMEX” or the “Exchange”), against PRUDENTIAL EQUITY GROUP, LLC, formerly known as Prudential Securities, Inc. (“PEG” or “the Firm”) (CRD #7471), a regular member of the Exchange. This Stipulation of Facts and Consent to Penalty is entered into with the Firm pursuant to Article V, Section 2, of the Exchange Constitution in order to settle and conclude all disciplinary actions by the Exchange against the Firm based upon or arising out of the facts hereinafter stipulated. The Firm, without admitting or denying the facts, allegations and conclusions contained in this Stipulation of Facts and Consent to Penalty, hereby consents to the findings of violations of the Exchange Constitution and Rules and to the imposition of the penalties hereinafter provided. The Firm understands that this settlement is subject to approval by an Exchange Disciplinary Panel and can be the subject of review by the Amex Adjudicatory Council and that, if so approved, shall constitute a final decision that may not be appealed by the parties. The Firm understands and acknowledges that the Disciplinary Panel’s decision in this matter will become part of its disciplinary record and may be considered in any future proceeding brought by the Exchange.

STIPULATED FACTS:

- 1.0 During all relevant periods herein, Prudential Securities Incorporated (“PSI”) was a regular member organization of the Exchange.¹
- 1.1 During all relevant periods herein, MT (“MT”) was the Branch Office Manager (“BOM”) at PSI’s Century Park East, Los Angeles, California branch.
- 1.2 During all relevant periods herein, SE (“SE”) was a Registered Representative (“RR”) at PSI’s Century Park East, Los Angeles, California branch office.
- 1.3 During all relevant periods herein, RO (“RO”) was the Chief Executive Officer (“CEO”) and Chairman of the Board of Directors (“Chairman”) of ABC Corporation (“ABC”), an Amex-listed security. RO maintained a brokerage account at PSI’s Century Park East, Los Angeles, California branch office that was serviced by RR SE.
- 1.4 During all relevant periods herein, Exchange Rule 320(b) provided that:

Each office, department or business activity of a member or member organization (including foreign incorporated branch offices) shall be under the supervision and control of the member or member organization establishing it and of the personnel delegated such authority and responsibility. The person in charge of a group of employees shall reasonably discharge his duties and obligations in connection with supervision and control of the activities of those employees related to the business of their employer including compliance with securities laws and regulations.
- 1.5 During all times relevant periods herein, Exchange Rule 320(c) provided that:

The general partners, directors, trustees of each member organization shall provide for appropriate supervisory control and shall designate a general partner, principal executive officer, [or] trustee to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities laws and regulations. This person shall: (1)

¹ The conduct described in this Stipulation and Consent solely occurred during the period of time when the firm was known as PSI.

delegate to qualified principals or employees responsibility and authority for supervision and control of each office, department or business activity, and provide for appropriate procedures of supervision and control; and (2) establish a separate system of follow-up and review to verify that the delegated authority and responsibility is being properly exercised.

1.6 During all relevant periods herein, Exchange Rule 411 provided that:

Every member or member organization shall use due diligence to learn the essential facts relative to every customer and to every order or account accepted. No member or member organization shall make any transaction for the account of or with a customer unless, prior to or promptly after the completion thereof, the member, a general partner, an officer or a trustee of the member organization shall specifically approve the opening of such account, provided, however, that in the case of a branch office the opening of an account for a customer may be approved by the manager of such branch office but the action of such branch office manager shall within a reasonable time be approved by a general partner or an officer of the member organization. The member, general partner, officer or trustee approving the opening of an account shall, prior to giving his approval, be personally informed as to the essential facts relative to the customer and to the nature of the proposed account and shall indicate his approval in writing on a document which will become part of the permanent records of his office organization.

Supervision of accounts

Every member is required either personally or through a general partner, an officer or trustee of his organization to supervise diligently all accounts handled by an employee.

RO's Improper Withdrawals Of \$1,375,000 From PSI Accounts:

- 2.0 On August 9, 2000, SE, in anticipation of receiving a deposit of restricted ABC stock from RO, requested information from PSI on the amount of credit PSI would extend RO against the restricted ABC stock. PSI initially stated that it would approve a loan of 30% of the value of 75,000 ABC shares (\$175,000) on August 9, 2000. The proceeds of the loan were to be used for reinvestment only.²
- 2.1 On August 15, 2000, SE commenced opening a new account for RO with PSI.
- 2.2 On August 16, 2000, RO deposited with PSI 711,789 shares of ABC stock.

² An account limited to "reinvestment" would not be allowed cash withdrawals of any credit extended to the account

- 2.3 On August 17, 2000, RO executed a pledge agreement indicating that he was depositing these 711,789 shares in order to obtain a margin loan for \$1.5 million.
- 2.4 Because RO had been the Chairman of the Board of Directors of ABC, RO's ABC stock constituted 144 restricted/control stock.³
- 2.5 During all relevant periods herein, pursuant to PSI's policies and procedures, an RR was required to obtain permission from PSI's Executive Services Department and/or Credit Department before certain actions could be undertaken with respect to a restricted/control stock position, e.g., obtain a margin loan against the position.
- 2.6 During all relevant periods herein, pursuant to PSI's policies and procedures, PSI's Executive Services Department was required to perform a "due diligence review" to determine whether or not PSI could undertake and perform what a client requested with respect to restricted or control stock, including whether the stock was "saleable."
- 2.7 During all relevant periods herein, if PSI's customer requested a loan against restricted or control stock, after PSI's Executive Services Department performed its review, it would forward the request to the Credit Department to assess whether to approve a loan and the amount of any such loan. PSI's Credit Department would communicate this information to the Executive Services Department, which would, in turn, inform the branch of its credit decision.

³ SEC Rule 144(a)(3)(i), entitled "Selling of Restricted and Control Securities," defines restricted securities as securities acquired directly or indirectly from the issuer, or from an affiliate of the issuer, in a transaction or chain of transactions not involving any public offering. Control securities are defined as those held by an affiliate of the issuing company and control means the power to direct the management and policies of the company in question, whether through the ownership of voting securities, by contract, or otherwise. "Affiliate" is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such issuer.

- 2.8 PSI's Credit Department approved only a loan of \$150,000 for RO, on 711,789 shares on August 30, 2000, limited to reinvestment purposes only.
- 2.9 At no time did the Credit Department and the Executive Services Department approve a \$1.5 million loan against ABC stock for the RO account.
- 2.10 Despite the fact that RO's account was listed for reinvestment purposes only, RO was issued a Command Account checkbook for his PSI account. This provided RO with an ability to withdraw funds in excess of \$150,000 from his PSI account, unless PSI marked the account to prevent such withdrawals.
- 2.11 Using the checks he received from PSI, RO wrote two checks, one for \$1,000,000 on August 23, 2000, and one for \$375,000 on August 28, 2000, against his account.
- 2.12 On August 23, 2000, ABC halted trading on the Amex.
- 2.13 RO's checks cleared on August 25, 2000 and August 30, 2000 respectively.
- 2.14 On August 31, 2000, as a result of the halt in ABC trading, RO's account went into a debit position of \$1,364,105.62.

Supervisory Deficiencies

- 3.0 PSI failed to develop, maintain and enforce policies and procedures of supervision and control to ensure that sufficient and marketable collateral existed in RO's account prior to an extension of credit against a position of control or restricted stock.
- 3.1 During the relevant period herein, the foregoing shortcomings, as set forth in paragraph 3.0, also contributed to the resulting debit in RO's account. Specifically, PSI did not adequately supervise the amounts and types of credit

extended RO. It did not have sufficient policies and procedures in place to ensure that RO's position in ABC stock, which was used as collateral for a margin loan, was unencumbered. PSI enabled RO to borrow \$1,375,000 against his account and withdraw those funds through the issuance of two checks, even though: PSI had not approved any loan at that time and subsequently approved a loan of \$150,000; the approval for the loan stated that the proceeds of the loan must be reinvested in the account; and PSI did not detect the fact that trading in ABC was halted on August 23, 2000 and, therefore, the ABC stock in RO's account, which was the collateral for the loan, had become unsaleable. PSI also failed to detect the difference in the original requested loan amount for the RO account versus the ultimate credit extended by PSI to RO.

- 3.2 During the relevant period herein, the foregoing shortcomings, as set forth in paragraph 3.0, contributed to a gap in communication between the Executive Services Department and the Credit Department and resulted in the incorrect account number being forwarded to the Credit Department which ultimately contributed to RO being able to withdraw \$1,375,000 from his account, notwithstanding the fact that his account was coded for reinvestment purposes only.
- 3.3 During the relevant period herein, PSI's failure to have reasonable policies and systems of control resulted in RO's withdrawal of \$1,375,000 from his customer account prior to PSI issuing final authorization for RO's initial \$150,000 loan request.

3.4 During the relevant period herein, the foregoing shortcomings, as set forth in paragraph 3.0, contributed to PSI's delay in learning that both of RO's checks had cleared on August 23, 2000 and August 28, 2000, until September 5, 2000.

CONCLUSIONS:

By reasons of the above, a Disciplinary Panel may conclude that:

- 4.0 PSI violated Exchange Rule 320 in that the firm failed to establish and maintain appropriate policies, systems and procedures of supervision and control, including written supervisory procedures and failed to establish a separate system of follow up and review to ensure adequate supervision with the amounts and types of credit it extended to RO, as set forth in above paragraphs 2.0 through 3.5.
- 4.1 PSI violated Rule 411 in that it: 1) failed to delegate to qualified principals or employees responsibility and authority for supervision and control of those departments responsible for the amount and type of credit extended by PSI to RO; (2) failed to provide for appropriate procedures of supervision and control with respect to the amount and type of credit extended by PSI to RO; (3) failed to establish a separate system of follow-up and review to verify that the delegated authority and responsibility was being properly exercised in connection with the amount and type of credit extended by PSI to RO; and (4) failed to diligently supervise RO's customer account with a view toward the amount of credit extended RO, as set forth in paragraphs 2.0 through 3.4.

DISCIPLINARY ACTION:

By reason of the foregoing Stipulated Facts, a Disciplinary Panel may impose the following penalties upon the Firm:

- (a) a censure; and
- (b) a fine of \$35,000.

The Firm hereby acknowledges that it has read carefully this Stipulation and understands all of the provisions contained herein; that it has agreed to its provisions voluntarily; and that no offer, promise, threat or inducement of any kind has been tendered to the Firm by the Exchange, its staff or representatives to induce the Firm to enter into this Stipulation, aside from the prospect of settling this disciplinary proceeding based on the terms and conditions set forth in this Stipulation rather than adjudicating this matter by way of a hearing on a Charge Memorandum as provided by Exchange rules.

Further, the Firm hereby agrees that it 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 Stipulation or create the impression that the Stipulation is without factual basis. Nothing in this provision affects the Firm's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which the Exchange is not a party.

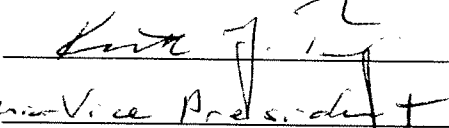
Finally, it is understood and agreed that in any written submission to or proceeding before any person or body convened to consider this Stipulation of Facts and Consent to Penalty (including to, a Hearing Officer acting alone, a Hearing Panel, or any reviewing body authorized by the Amex Constitution and/or Rules), neither Enforcement nor the Firm shall offer any argument that is inconsistent with the stipulated facts or the agreed-upon penalty, nor shall either party ask for the imposition of any penalty other than that agreed upon in this Stipulation of Facts and Consent to Penalty.

ON BEHALF OF:
AMERICAN STOCK EXCHANGE LLC

By: 

David Rosenstein
Vice-President and Chief Counsel
Enforcement Department
NASD Amex Regulation Division

Agreed to this 7 day of February, 2007.


Senior Vice President
Prudential Equity Group, LLC