BEFORE THE NATIONAL BUSINESS CONDUCT COMMITTEE

NASD REGULATION, INC.

In the Matter of the Association

of

X

as a

Registered Representative

with

The Sponsoring Firm

Redacted Decision

Notice Pursuant to Section 19(d) Securities Exchange Act of 1934

SD97001

This matter involves the association of X^1 , a person subject to a statutory disqualification, as a registered representative with a member firm ("the Sponsoring Firm" or "the Firm") located in New York. A hearing on the matter was held on May 29, 1997, before a subcommittee ("SD hearing panel") of the Statutory Disqualification Committee of NASD Regulation, Inc. ("NASD Regulation"). X appeared and was accompanied by the branch manager and general securities principal ("the Proposed Supervisor").

X has not been previously employed in the securities industry.

X is subject to a statutory disqualification as a result of his conviction a Pennsylvania Court of Common Pleas in 1993 to a violation of the Controlled Substance, Drug, Device and Cosmetic Act. He was sentenced to three - twelve months incarceration (suspended), four years probation and fined \$700. He is currently on probation.

The names of the Statutorily Disqualified individual, the Sponsoring Firm, the Proposed Supervisor, and other information deemed reasonably necessary to maintain confidentiality have been redacted.

X was employed as a registered pharmacist when he fraudulently obtained prescription drugs for his own use. He has since completed a residential drug rehabilitation program and is active in Narcotics Anonymous and Alcoholics Anonymous.

X testified at the hearing as to his employment history since his disqualification. He stated that he has been engaged in various manual labor jobs. He also has been selling life insurance on a part-time basis.

The Sponsoring Firm has been a member of the NASD since 1983 and is engaged in a general securities business. The Sponsoring Firm clears on a fully disclosed basis and employs 57 registered principals, 267 registered representatives and has 36 branch offices. The Sponsoring Firm proposes to employ X as a registered representative to work from the branch office, which is located in , Pennsylvania. X will be supervised by, the branch manager. The Proposed Supervisor has been a registered principal since 1996 and has no disciplinary history. It is proposed that X's primary duties will be to act as a registered representative of the Sponsoring Firm.

At the hearing and in written submissions the Sponsoring Firm outlined the following supervisory plan:

- 1. X and the Proposed Supervisor will be located in close proximity.
- 2. The Proposed Supervisor will review and approve all new accounts.
- 3. The Proposed Supervisor will review and approve all trades prior to entry.

No familial relationship exists between X and the Proposed Supervisor. In 1997, the Sponsoring Firm and its president were the subject of a Temporary Restraining Order ("TRO") issued by the U.S. District Court for State 1, thus making them both subject to statutory disqualifications. The SEC alleged that the Sponsoring Firm engaged in the sale of three unregistered offerings of corporate notes in the total face amount of over \$13 million. These corporate notes were represented as fully insured, when in fact, the SEC alleged, they were not. The SEC further alleged that the Sponsoring Firm performed no due diligence on these notes prior to the sale. In addition, the President was required to furnish approximately \$2,000,000 as security to the Court, such funds representing money received in the sale of these offering. The TRO has been extended until adjudication is completed.

After a careful review of the entire record in this matter, we conclude that the application of X to become associated with the Sponsoring Firm as a registered representative should be denied. We note that X is still on probation for his felony conviction. Moreover, we are quite concerned by the recent and serious nature of the Sponsoring Firm's pending regulatory proceeding. The SEC allegations describe egregiously fraudulent and deceptive activities engaged in by both the president and the Sponsoring Firm, and such activities were perpetrated upon the Sponsoring Firm's retail customers. In view of the current extremely serious regulatory problem involving the Sponsoring Firm, we do not believe such a firm can properly discharge the heightened supervisory standards required to employ a statutorily disqualified person.

For these reasons, we do not believe it is appropriate, given proper regard for the public interest and protection of investors, to allow X to become associated with the Sponsoring Firm

On Behalf of the National Business Conduct Committee,

Joan C. Conley Corporate Secretary