

In the Matter of:

Preferred Technology, Inc.

220 Montgomery Street

Suite 777

San Francisco, CA 94104

Respondent

DECISION ACCEPTING OFFER OF SETTLEMENT

1. During all relevant periods herein, Preferred was a member of the Exchange.
2. During all relevant periods herein, Preferred was registered with the Exchange to transact business on the Exchange in accordance with Exchange Rules as a member organization associated with a market-maker, and authorized to conduct non-member customer business.

3. During all relevant periods herein, Exchange Rules 4.2 - Adherence to Law, 9.3 - Registration and Termination of Representatives, 9.7 - Opening of Accounts, and 9.8 - Supervision of Accounts were in full force and effect.
4. On November 5, 1996, the Exchange initiated its 1996 Routine Main Office Examination of Preferred ("Examination"), which Examination involved the review of Preferred's activities from October 3, 1995 through October 31, 1996.
5. During the period from on or about October 3, 1995 through on or about October 31, 1996, Preferred approved 29 of the 49 customer accounts reviewed by the Exchange during its Examination to trade listed options without the required customer background and financial information on file with Preferred.
6. During the period from on or about October 3, 1995 through on or about October 31, 1996, Preferred failed to develop, implement and maintain specific written procedures establishing minimum net equity requirements for initial approval and maintenance of customer uncovered option accounts.
7. During the period from on or about October 3, 1995 through on or about October 31, 1996, Preferred failed to develop, implement and maintain specific written procedures establishing minimum annual income and investment experience requirements to be used in evaluating the suitability of a customer for uncovered short option transactions.
8. During the period from on or about October 3, 1995 through on or about October 31, 1996, 8 of the 16 accounts reviewed by the Exchange during its Examination that were approved for writing uncovered short option transactions did not meet Preferred's minimum standards for such approval, and no written record was on file with Preferred indicating the reasons each of the aforementioned 8 accounts were approved without meeting the firm's minimum standards for approval.
9. During the period from on or about October 3, 1995 through on or about October 31, 1996, Preferred failed to reasonably supervise two customer accounts by failing to obtain new account documentation, trade confirmations and monthly account statements for the aforementioned accounts, and by failing to conduct an ongoing review of the transactions effected in those accounts.
10. During the period from on or about October 3, 1995 through on or about October 31, 1996, 22 of the 42 persons associated with Preferred and designated by Preferred as Representatives, were not approved by and registered with the Exchange as Representatives.

FINDINGS

11. The acts, practices and conduct described in Paragraph 5 above constitute violations of Exchange Rule 9.7(b)(.01) by Preferred, in that Preferred failed to exercise due diligence in approving customer accounts for options transactions.

12. The acts, practices and conduct described in Paragraph 6 above constitute violations of Exchange Rule 9.7(f)(4) and 9.8(.02) by Preferred, in that Preferred failed to establish, maintain and enforce specific minimum net equity requirements for initial approval and maintenance of customer uncovered option accounts.
13. The acts, practices and conduct described in Paragraph 7 above constitute violations of Exchange Rules 9.7(f)(1) and 9.8(.02) by Preferred, in that Preferred failed to establish, maintain and enforce minimum annual income and investment experience requirements to be used in evaluating the suitability of customers for uncovered short option transactions.
14. The acts, practices and conduct described in Paragraph 8 above constitute violations of Exchange Rule 9.7(f)(3) and 9.8(.02) by Preferred, in that Preferred approved accounts for writing uncovered short option transactions that did not meet its minimum standards for such approval, and subsequently, Preferred did not make a written record indicating the reasons each account was approved without meeting the firm's minimum standards for approval.
15. The acts, practices and conduct described in Paragraph 9 above constitute violations of Exchange Rule 4.2 and 9.8 by Preferred, in that Preferred failed to reasonably supervise two customer accounts.
16. The acts, practices and conduct described in Paragraph 10 above constitute violations of Exchange Rule 9.3(a) by Preferred, in that persons associated with Preferred as Representatives were permitted to accept option orders from public customers although those associated persons were not approved by and registered with the Exchange.

SANCTION

The sanction to be imposed shall consist of a censure and a seven thousand five hundred dollar (\$7,500) fine.

ORDER

ACCORDINGLY IT IS ORDERED THAT, the Respondent, Preferred Technology, Inc., shall be and hereby is censured and fined seven thousand five hundred dollars (\$7,500).

**SO ORDERED
FOR THE COMMITTEE**

Dated: June 4, 1997

**By: /s/ Bruce I. Andrews
Bruce I. Andrews
Chairman
Business Conduct Committee**