

**NASD**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. E0220040098-02**

TO: Department of Enforcement  
NASD

RE: Jefferies & Company, Inc., Respondent  
Member Firm  
CRD No. 2347

Pursuant to Rule 9216 of NASD Code of Procedure, Jefferies & Company, Inc. ("Jefferies" or the "Firm") 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 it alleging violations based on the same factual findings.

Jefferies understands 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 it; and
3. If accepted:
  - a. this AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against it;
  - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about its 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. 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 findings in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects its testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

Jefferies also understands that its 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:

Jefferies has been a member of NASD since March 1, 1963. Its principal offices are located in New York, New York; and it maintains additional offices around the world. The Firm employs approximately 850 registered persons, who operate from seventeen OSJ offices and six non-OSJ branch offices.

Jefferies engages in general securities, market making, research, investment banking, investment advisory, mergers and acquisitions, and various other securities business, as well as a securities lending and financing business. The Firm clears its own securities transactions and it provides clearing services to approximately forty-nine other broker/dealers. Jefferies' affiliated businesses include domestic and foreign broker/dealers, investment advisory firms and transaction processing firms.

Jefferies has the following relevant disciplinary history:

1. The Firm entered into a Letter of Acceptance, Waiver and Consent, effective on or about September 28, 2005, agreeing to the entry of findings by NASD that the Firm committed the following supervision-based violations:
  - a. The Firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and NASD Rules concerning front running and trade reporting – riskless principal transactions, in violation of NASD Conduct Rules 2110 and 3010; and
  - b. The Firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and NASD Rules, including SEC Rule 11Ac1-6 concerning customer crosses; NASD Rule 2320(g) (the Three Quote Rule); SEC Rule 11Ac1-5, concerning trade reporting – riskless principal and long/short transactions, the Bid Test Rule, and the One Percent Rule, in violation of NASD Conduct Rules 2110 and 3010.

- c. For those and other violations, the Firm was censured and fined \$125,500; and it undertook to revise its written supervisory procedures with respect to those areas.
2. The Firm entered into an AWC, effective on or about September 6, 2005, agreeing to the entry of findings by NASD that the Firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to SEC Rule 15c2-11 and NASD Rule 6740, in violation of NASD Conduct Rules 2110 and 3010. For that and other violations, the Firm was censured and fined \$12,500; and it undertook to revise its written supervisory procedures with respect to those areas.
3. The Firm entered into an AWC, effective on or about June 22, 2005, agreeing to the entry of findings by NASD that the Firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to applicable securities laws and regulations, and NASD Rules concerning Order Audit Trail System reporting in violation of NASD Conduct Rules 2110 and 3010. For that and other violations, the Firm was censured and fined \$100,000.
4. The Firm entered into an AWC, effective on or about April 21, 2004, agreeing to the entry of findings by NASD that the Firm committed the following supervision-based violations:
  - a. The Firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations concerning trade reporting (riskless principal transactions) and best execution (Three Quote Rule), in violation of NASD Conduct Rules 2110 and 3010; and
  - b. The Firm failed to enforce its written supervisory procedures with respect to limit order display, in violation of NASD Conduct Rules 2110 and 3010.
  - c. For those and other violations, the Firm was censured and fined \$27,500; and it undertook to revise its written supervisory procedures in those areas.
5. The Firm entered into an AWC, effective on or about December 15, 2005, agreeing to the entry of findings by NASD that the Firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations concerning SEC Rule 14e-4, in violation of NASD Conduct Rules 2110 and 3010. For those and other violations, the Firm was censured and fined \$100,000.

## I.

### WAIVER OF PROCEDURAL RIGHTS

Jefferies specifically and voluntarily waives the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against it;
- 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, Jefferies specifically and voluntarily waives any right to claim bias or prejudice 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.

The Firm further specifically and voluntarily waives 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. Jefferies hereby accepts and consents, 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:

## 1. Summary

- a. From September 3, 2002 through October 11, 2004 (the Relevant Period), Jefferies, through one of its registered representatives, Kevin W. Quinn (Quinn), engaged in a pattern of prohibited conduct, by repeatedly and routinely violating NASD Rules 3060<sup>1</sup> and 2110<sup>2</sup> by (a) providing more than \$600,000 in gifts to equity traders (Fidelity traders) employed by a registered investment advisor, FMR Co., Inc., an investment advisor to the Fidelity Investments family of mutual funds (Fidelity), well beyond the Rule's \$100 per person, per year limitation, and (b) entertaining, on Jefferies' behalf, Fidelity traders, at a cost of more than \$1.0 million, where the manner, cost and/or frequency were such that the entertainment was excessive and/or too frequent and raised an appearance of impropriety.

The improper gifts and gratuities, valued at more than \$600,000, included:

- private chartered jet travel, where Quinn did not accompany the recipients;
- non-promotional sports-related merchandise and prizes of greater than de minimus value;
- electronic entertainment equipment and expensive bottles of wine; and
- expensive tickets to sporting and theatrical events, where Quinn did not accompany the recipients of the tickets.

The improper entertainment was costly and mostly comprised of trips to various resort locations within the United States coupled with lodging for his Fidelity clients. Most of these entertainment expenses, in which Quinn personally participated, included private chartered flights to various destinations including, but not limited to, Palm Beach and Miami Beach,

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<sup>1</sup> NASD Rule 3060 restricts the extent to which associated persons may confer gifts and gratuities. Specifically, the Rule prohibits "any member or person associated with a member" from "directly or indirectly giv[ing] or permit[ing] to be given anything of value, including gratuities, in excess of one hundred dollars per individual per year to any person, principal, proprietor, employee, agent or representative of another person where such payment or gratuity is in relation to the business of the employer of the recipient of the payment or gratuity." (Rule 3060). Under Rule 3060, "[a] gift of any kind is considered a gratuity." In a June 1999 letter, NASD staff advised a member firm that business entertainment is not governed by Rule 3060 "so long as it is neither so frequent nor so extensive as to raise any question of propriety." See, Letter to Henry Hopkins and Sara McCafferty, T Rowe Price Investment Services, Inc., from R. Clark Hooper, NASD, dated June 10, 1999.

<sup>2</sup> NASD Rule 2110 prohibits conduct that is inconsistent with just and equitable principles of trade.

Florida, Nantucket, and other destinations in Massachusetts, for overnight and weekend golf outings; private chartered flights and a private limousine for a bachelor party for one of the Fidelity traders; and the 2004 Super Bowl. The golf outings included annual, multiple day golf trips in 2002 and 2003 for various Fidelity traders, which included venues such as Las Vegas, Nevada, Cabo San Lucas, Mexico, and Arizona. Quinn and the Fidelity traders referred to this annual event as the "Fall Classic."

**2. Quinn's Business at Jefferies was Dependent Upon the Business he Generated From Fidelity Traders.**

- a. During the Relevant Period, Quinn was an institutional sales trader with Jefferies in the Firm's Equity Division. In this position, he solicited business from traders at Fidelity in an effort to obtain order flow for Jefferies traders.
- b. The business of Quinn and his associates (collectively, Quinn's Equity Group) was almost entirely dedicated to trading revenue that they generated by conducting business with Fidelity.
- c. Fidelity, based in Boston, Massachusetts, is the largest registered investment adviser in the United States and one of the largest in the world. Fidelity serves as the investment adviser to approximately 200 Fidelity funds, has assets totaling approximately \$1.1 trillion under management, and annually spends approximately \$1.4 billion in commissions to execute trades for those assets.
- d. Fidelity executes trades for each of its mutual funds and other advisory clients through its "buy side" desks. The Fidelity Equity Trading desk traders are authorized to determine where to execute trades for the purchase and sale of equity securities for the Fidelity mutual funds and other Fidelity clients. Choice of execution includes the use of the services of many brokerage Firms across the United States.
- e. Under Jefferies' employment contract with Quinn, Quinn was entitled to a grant of approximately \$1.1 million in restricted company stock, which was to vest over three years, and an annual "guaranteed" base salary of \$1.3 million for the portion of 2002 that he was employed by the Firm, \$4.0 million in 2003, and \$4.75 in 2004.<sup>3</sup>

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<sup>3</sup> Quinn forfeited one-third of Quinn's restricted stock due to the fact that Jefferies terminated his employment with the Firm for cause in 2004.

- f. Quinn's employment agreement also provided for an annual travel and entertainment budget of \$1.5 million for use by Quinn and his team. Jefferies' management understood that this budget was going to be used in connection with business entertainment events attended by Jefferies and Fidelity employees, and that the largest component of these expenses would be for private air travel.
- g. In 2001, prior to employing Quinn, Jefferies generated from Fidelity gross commission revenue of approximately \$4.0 million. In the first six months of 2002, just prior to Quinn's arrival at Jefferies, the Firm received approximately \$2.0 million in commission revenue from Fidelity. During the period in 2002 when Jefferies employed Quinn, the Firm's commission revenue from Fidelity increased to approximately \$11.5 million. For the full calendar year 2003, during which the Firm employed Quinn, gross commission revenue from Fidelity increased to approximately \$30.0 million. For 2004, through Quinn's departure date in early October, Jefferies earned approximately \$24.5 million in gross commissions. In sum, during the period of Quinn's employment, Jefferies received over \$60 million in gross commissions from Fidelity.

**3. Jefferies, Acting Through Quinn, Engaged in Prohibited Conduct by Giving Impermissible Gifts to, and Engaging in Excessive Entertainment of, Fidelity Traders.**

- a. Quinn used his expense account for, and Jefferies routinely reimbursed Quinn for, gifts Quinn provided to Fidelity traders that were prohibited by Rules 3060 and 2110. Quinn also used his expense account for, and Jefferies routinely approved and reimbursed Quinn for, entertainment Quinn provided to Fidelity traders that was, under the particular circumstances, inappropriate, excessive and raised an appearance of impropriety in violation of Rules 3060 and 2110.

**Jefferies, Acting Through Quinn, Routinely Conferred Gifts Upon Fidelity Traders that Exceeded the Gift Limitations of Rule 3060.**

- b. For example Quinn provided the following gifts<sup>4</sup>:

*For Fidelity trader TB:*

*In 2002*

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<sup>4</sup> Quinn did not accompany any Fidelity trader on any of the gifted flights nor any of the events, including theatrical and sporting events identified as a gift.

- A private chartered flight from Bedford, MA to Bermuda, for which Quinn paid more than \$17,000.

*In 2003*

- A private air chartered flight between Boston and Los Angeles, for which Quinn paid more than \$70,000;
- A private air chartered flight from Boston to Florida, for which Quinn paid approximately \$31,000; and
- Approximately five more private chartered flights, between various locations, for which Quinn paid more than \$40,000.

*In 2004*

- A limousine car service for travel between Boston, MA and Biddleford, ME, for which Quinn paid more than \$600;
- Golf clubs for which Quinn paid approximately \$500; and
- A private chartered flight from Bedford, MA to Puerto Rico, for which Quinn paid more than \$23,000.

*For Fidelity trader RB:*

*In 2002*

- Tickets to the Wimbledon tennis tournament, for which Quinn paid more than \$19,000;
- Tickets to the theatrical performance of the Lion King, for which Quinn paid \$675;
- Tickets for a senior Fidelity official to the theatrical performance of Hairspray, for which Quinn paid more than \$3,600; and
- Eight bottles of wine, for which Quinn paid more than \$5,900.

*In 2003*

- Tickets to a professional dance performance, for which Quinn paid \$700;
- Tickets to the men's and women's Wimbledon tennis finals, for which Quinn paid more than \$31,000;
- Tickets to a Santana concert, for which Quinn paid \$200;

- Tickets to a Justin Timberlake/Christina Aguilera concert, for which Quinn paid \$1,200;
- Tickets to the US Open Tennis Tournament, for which Quinn paid more than \$7,000; and
- Twelve bottles of 1993 Chateau Petrus (Pomerol) wine, for which Quinn paid more than \$7,500.

*In 2004*

- Tickets to Wimbledon, for which Quinn paid more than \$38,000;
- Lodging in connection with the Wimbledon event at the Lanesborough Hotel, London, for which Quinn paid more than \$12,000;
- Tickets to Erika Radu, for which Quinn paid more than \$1,000; and
- Tickets to a Boston Red Sox game, for which Quinn paid \$700.

*For Fidelity trader SD<sup>5</sup>:*

*In 2002*

- A portable DVD player, for which Quinn paid approximately \$1,000.

*In 2003*

- Boston Celtics tickets, for which Quinn paid \$1,100; and
- Approximately four private chartered flights between various locations, for which Quinn paid more than \$92,000.

*For Fidelity trader DD:*

*In 2003*

- Boston Red Sox tickets, for which Quinn paid \$450;
- Tickets to the circus, for which Quinn paid \$400;

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<sup>5</sup> During the Relevant Period, Fidelity trader SD was Fidelity's Head of Global Equity Trading. Following NASD's discovery of the conduct described in this AWC, Fidelity reassigned SD to a different position with one of its sister corporations.

- A private chartered flight from Las Vegas to Boston, for which Quinn paid more than \$15,000; and
- Approximately two more private chartered flights between various locations, for which Quinn paid more than \$30,000.

*In 2004*

- Tickets to the theatrical performance of the Lion King, for which Quinn paid \$1,000; and
- A private chartered flight from Beverly, MA to Nantucket, MA, for which Quinn paid more than \$4,500.

*For Fidelity trader CH:*

*In 2003*

- Tickets to a concert, for which Quinn paid \$800; and
- A private air chartered flight with fellow trader JH, from Nantucket, MA to Bedford, MA, for which Quinn paid more than \$10,000.

*For Fidelity trader JH:*

*In 2002*

- A portable DVD player, for which Quinn paid approximately \$1,000.

*In 2003*

- Six bottles of 1998 Opus One wine, for which Quinn paid more than \$2,600.

*In 2004*

- A private chartered flight from Bedford, MA to Providenciales, Turks and Caicos Islands, for which Quinn paid more than \$47,000; and
- A private chartered flight, with fellow trader CH, from Nantucket, MA to Boston, MA, for which Quinn paid more than \$4,000.

For Fidelity trader ED:

In 2002

- A private chartered flight from Boston, MA to Orlando, FL, for which Quinn paid more than \$24,000.

For Various Fidelity traders:

During the Relevant Period

- Non-promotional golf-related merchandise and “prizes” to approximately five Fidelity traders, including SD, DD and CH, which well-exceeded the gift limitations of Rule 3060.
- c. The aforementioned acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 3060 and 2110 by Jefferies.

**The Nature and Extent of Jefferies’ Entertainment of the Fidelity Traders also Violated Rule 3060.**

- d. Through Quinn, Jefferies also paid more than \$1.0 million for expenses relating to the entertainment of various Fidelity traders. The entertainment of the Fidelity traders was excessive, inappropriate and raised an issue of impropriety. The entertainment generally targeted a core group of approximately ten Fidelity traders.
- e. Specifically, the entertainment included, without limitation, the following:

In 2002

- (i) Quinn entertained Fidelity traders SD and JH by treating them to a four-day golf outing in various locations on the west coast (the Fall Classic), including Las Vegas, NV and Cabo San Lucas, Mexico. Quinn paid more than \$225,000 for private air charter flights between each destination, lodging, meals, ground transportation, merchandise and prizes. Quinn paid as much as \$5,000 per night, per bungalow at the Bellagio Hotel in Las Vegas, and a similar amount for each of two villas he used at the Esperanza Resort in Cabo San Lucas, Mexico, for his guests;
- (ii) Quinn entertained Fidelity trader JH by treating him to a golf trip in Florida and South Carolina. Quinn paid more than \$33,000 for

private air chartered flights between destinations, lodging, limousine car service and "prizes."

*In 2003*

- (iii) Quinn entertained Fidelity trader DD by treating him and his family to a one-week vacation in Florida, for which Quinn paid more than \$93,000. For the vacation, Quinn provided a roundtrip private charter flight between Florida and Massachusetts, and more than \$23,000 for lodging, meals and various additional resort expenses at the Breakers Hotel in Palm Beach for DD and DD's family and Quinn and his family;
- (iv) In connection with a bachelor party in Miami for Fidelity trader TB, Quinn paid for a limousine service, and private roundtrip chartered flights between Boston and Miami for TB, SD, and other guests. Quinn paid more than \$75,000 for these items;
- (v) Quinn entertained Fidelity trader JH by treating him to a golf trip in South Carolina. Quinn paid more than \$35,000 for private air chartered flights between Boston and South Carolina, lodging, limousine car service and golf; and
- (vi) Quinn again entertained Fidelity traders TB, JH and CH, by treating them to the 2003 Fall Classic golf outing. The 2003 Classic took place over four days in various locations in the Western United States including Las Vegas, NV and Scottsdale, AZ. For his guests, Quinn paid more than \$140,000 for private air charter flights between each destination, lodging at extravagant hotels (including \$5,000 per night villas at the MGM Grand), meals, ground transportation, golf, golf merchandise and "prizes."

*In 2004*

- (vii) Quinn again invited DD and his family to join Quinn and his family at the Breakers Hotel, Palm Beach, where Quinn paid more than \$49,000 for the private air charter flight for the two families, and more than \$15,000 for lodging, meals and other resort costs for DD's family; and
- (viii) Quinn invited Fidelity traders TB and JH to join Quinn and another Jefferies trader at the Super Bowl in Houston, where

Quinn paid more than \$125,000 for Super Bowl weekend-related expenses for the group. Weekend expenses included Maxim and Playboy pre-game parties, a car service, private round trip chartered flights, lodging and tickets to the game.

- f. The aforementioned acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 3060 and 2110 by Jefferies.

**4. Jefferies Failed to Reasonably Supervise Quinn's Use of his Lavish Travel and Entertainment Budget.**

- a. During the Relevant Period, Jefferies failed to reasonably supervise Quinn's use of his \$1.5 million annual travel and entertainment budget. The Firm, through one of its managers, routinely and repeatedly reimbursed Quinn for gifts he conferred to certain Fidelity Traders, which exceeded the limitations imposed by Rule 3060. Moreover, as described above, Jefferies routinely approved Quinn's requests for reimbursement for entertainment expenses he claimed to have incurred while entertaining Fidelity Traders, where such entertainment violated Rule 3060.
- b. The foregoing acts, practices and conduct constitute a violation of NASD Conduct Rules 3010 and 2110 by Jefferies.

**5. Jefferies Failed to Establish and Maintain an Adequate Supervisory System and Failed to Adopt and Maintain Adequate Written Supervisory Procedures Which Were Reasonably Designed to Ensure Compliance with Rule 3060.**

- a. During the Relevant Period, Jefferies failed to create or implement an adequate supervisory system, or to adopt and maintain adequate written supervisory procedures that were reasonably designed to achieve compliance with the gift or entertainment limitations imposed by Rule 3060.
- b. The foregoing acts, practices and conduct constitute a violation of NASD Conduct Rules 3010 and 2110 by Jefferies.

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

1. A censure;
2. A fine in the amount of \$5.5 million<sup>6</sup>, payable to NASD within 30 days of the effective date of the AWC; and
3. To perform the following undertakings:
  - a. Jefferies shall:
    - (i) Retain, within thirty days of the Notice of Acceptance of this AWC, an Independent Consultant, not unacceptable to NASD staff, to conduct a comprehensive review of the adequacy of the Firm's policies, systems and procedures (written and otherwise) and training relating to the Firm's entertainment of (including any travel), and gifts to, customers and prospective customers of the Firm, including compliance with Rule 3060.
    - (ii) Jefferies shall exclusively bear all costs, including compensation and expenses, associated with the retention and performance of the Independent Consultant.
    - (iii) Jefferies shall cooperate with the Independent Consultant in all respects, including by providing staff support. Jefferies shall not place any restrictions on the Independent Consultant's communications with NASD staff and, upon request, shall make available to NASD staff any and all communications between the Independent Consultant and Jefferies and documents reviewed by the Independent Consultant in connection with the Consultant's engagements. Once retained, Jefferies shall not terminate its relationship with the Independent Consultant without the NASD staff's written approval. Jefferies shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney-client privilege or other doctrine of privilege to prevent the Independent

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<sup>6</sup> The fine takes into account a credit that NASD has given to Jefferies for its cooperation with NASD's investigation. Following NASD's discovery of the alleged misconduct, the Firm, among other things, hired an outside lawyer to i) investigate the Firm and Quinn's use of the annual travel and entertainment budget and ii) review the Firm's supervisory controls and systems, including its written supervisory procedures, concerning Rule 3060. Upon completion, Jefferies provided NASD with a copy of the outside lawyer's report, including his findings. Jefferies also terminated Quinn, for cause and imposed sanctions upon the senior manager who supervised Quinn's use of his travel and entertainment budget.

Consultant from transmitting any information, reports or documents to NASD.

- (iv) Jefferies shall require the Independent Consultant to enter into a written agreement that provides that for the period of the engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with Jefferies or any of its present or former affiliates, directors, officers, employees or agents acting in their capacity as such. Any firm with which the Independent Consultant is affiliated in performing his or her duties pursuant to this AWC shall not, without prior written consent of the NASD staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Jefferies or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.
- (v) At the conclusion of the review, which shall be no more than 120 days after the date of Notice of Acceptance of this AWC, require the Independent Consultant to submit to the Firm and NASD staff a Report. The Report shall address, at a minimum, (i) the adequacy of the Firm's policies, systems, procedures and training relating to the Firm's entertainment of (including any travel), and gifts to, customers and prospective customers of the Firm, including compliance with Rule 3060; (ii) a description of the review performed and the conclusions reached, and (iii) the Independent Consultant's recommendations for modifications and additions to the Firm's policies, systems, procedures and training.
- (vi) Within thirty days after delivery of the Report, Jefferies shall adopt and implement the recommendations of the Independent Consultant or, if it determines that a recommendation is unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. The Firm shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and the NASD staff. Within thirty days of receipt of any proposed alternative procedure, the Independent Consultant shall: (i) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide the Firm with a written decision reflecting his or her

determination. The Firm will abide by the Independent Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant.

- (vii) Within sixty days after the issuance of the later of the Independent Consultant's Report or written determination regarding alternative procedures (if any), Jefferies shall provide the NASD staff with a written implementation report, certified by an officer of Jefferies, attesting to, containing documentation of, and setting forth the details of the Firm's implementation of the Independent Consultant's recommendations.
- (viii) For good cause shown, and upon receipt of a timely request from Jefferies, NASD may extend any of the procedural dates set forth above.

### III.

#### OTHER MATTERS

- A. Jefferies understands that it may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Jefferies 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. Jefferies agrees to pay any monetary sanctions imposed on it within 30 days of receipt of notice that this AWC has been accepted.
- C. Jefferies 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.

Jefferies 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 Jefferies to submit it.

JEFFERIES & COMPANY, INC.

11/22/06  
Date

Lloyd H. Feller  
By: LLOYD H. FELLER  
General Counsel

Reviewed by:

COVINGTON & BURLING LLP  
Bruce A. Baird  
By: Bruce A. Baird, Esq.,  
Counsel for Jefferies

Accepted by NASD:

Date:

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

David A. Greene  
Deputy Regional Chief Counsel  
NASD Department of Enforcement  
300 S. Grand Avenue, Suite 1600  
Los Angeles, CA 90071  
(213) 613-2643

**NASD District Director**  
Joseph M. McCarthy, Associate Vice  
President and Acting District Director  
NASD, District 2  
300 South Grand Ave., Suite 1600  
Los Angeles, CA 90071  
(303) 446-3190

Attachment

**ELECTION OF PAYMENT FORM**

Jefferies intends to pay the fine proposed in Section II of the Letter of Acceptance, Waiver and Consent by the following method (check one):

- A corporate check or bank check for the full amount;
- Credit card authorization for the full amount;<sup>7</sup>

Respectfully submitted,

JEFFERIES AND COMPANY, INC.

11/22/06  
Date

Lloyd H. Feller  
By: LLOYD H. FELLER  
General Counsel

<sup>7</sup> Only Mastercard and Visa are accepted for payment by credit card. If this option is chosen, the appropriate forms will be mailed to you, with an invoice, by NASD's Finance Department. Do not include your credit card number on this form.