

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20070093443-01

TO: Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

RE: Jefferies & Company, Inc., Respondent
Broker-Dealer
CRD No. 2347

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Jefferies & Company, Inc. ("JEFF" 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 below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm 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 FINRA, or to which FINRA 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 FINRA:

BACKGROUND

JEFF has been a member of FINRA since March 1, 1963, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

JEFF has the following relevant disciplinary history:

- On July 11, 2007, an AWC became final in which the firm was censured and fined \$525,000 for violations of NASD Rules 2110, 3010, 3350, 3370, 4632, 4642, 6130, 6230, 6420, 6620, 6640 (formerly NASD Rule 6740) and 6955; and SEC Rules 10b-10, 15c2-11, 200(g), 203(b) and 605 (formerly SEC Rule 11Ac1-5).
- On October 6, 2005, an AWC became final in which the firm was censured and fined \$125,500 for violations of NASD Rules 2110, 3010, 3110, 3370, 4632, 6130, 6620 and 6955; and SEC Rules 10b-10, 11Ac1-4 (currently SEC Rule 604), 11Ac1-5 (currently SEC Rule 605), 17a-3 and 17a-4.

- On September 6, 2005, an AWC became final in which the firm was censured and fined \$12,500 for violations of NASD Rules 2110, 3010 and 6640 (formerly NASD Rule 6740), and SEC Rule 15c2-11.
- On July 7, 2005, an AWC became final in which the firm was censured and fined \$100,000 for violations of NASD Rules 2110, 3010 and 6955.

SUMMARY

In connection with matter 20070093443, the staff of FINRA's Department of Market Regulation (the "staff") conducted a review of JEFF's compliance with certain requirements under NASD Rule 6955 for submitting equity securities order data to the Order Audit Trail System ("OATS") during the period September 1, 2006 through December 31, 2006 (the "third trimester of 2006").

In connection with matter 20070104605, the staff conducted a review of the firm's compliance with certain requirements under NASD Rules 2110, 2111 and 2320 for handling and executing customer's equity orders fully and promptly while also ensuring the "best execution" of such orders during the period January 1, 2007 through March 31, 2007 (the "first quarter of 2007").

In connection with matter 20070095219, the staff conducted a review of JEFF's compliance with certain requirements under SEC Rule 15c2-11 and NASD Rule 6640, plus related supervisory requirements under NASD Rule 3010, for submitting a quotation for publication on a quotation medium, the Pink Sheets, on June 13, 2007.

In connection with matter 20070138283, the staff conducted a review of the firm's compliance with certain requirements under NASD Rule 6130 for the trade reporting of equity securities transactions during the period September 1, 2007 through December 31, 2007 (the "third trimester of 2007").

In connection with matter 20070136267, the staff conducted a review of the firm's compliance with certain requirements under NASD Rules 2110, 2111 and 2320 for handling and executing customer's equity orders fully and promptly while also ensuring the "best execution" of such orders during the period October 1, 2007 through December 31, 2007 (the "fourth quarter of 2007").

FACTS AND VIOLATIVE CONDUCT

1. During the third trimester of 2006, JEFF transmitted to OATS 2,116 Route or Combined Order/Route Reports that the OATS system was unable to link to the related order routed to the NASD/NASDAQ Trade Reporting Facility due to inaccurate, incomplete or improperly formatted data. These unmatched Route or Combined Order/Route Reports represented approximately four percent of all match-eligible Route or Combined Order/Route Reports (56,081) that the firm transmitted to OATS during the period

reviewed. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

2. During the first quarter of 2007, in 43 instances, the firm failed to execute orders fully and promptly. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 2111(a).
3. During the first quarter of 2007, in 20 of the 43 transactions for or with a customer described in paragraph two, the firm failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions, as reflected on Exhibit A, attached hereto. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 2320.
4. On June 13, 2007, as described in Exhibit B, attached hereto, in eight instances the firm published a quotation for an OTC Equity Security or a Non-Exchange-Listed Security, or, directly or indirectly, submitted such quotation for publication, in a quotation medium, that is, the Pink Sheets, LLC, and did not have in its records the documentation and information required by SEC Rule 15c2-11(a) ("Paragraph (a) information"), and, based upon a review of the Paragraph (a) information, did not have a reasonable basis under the circumstances for believing that: (i) the Paragraph (a) information was accurate in all material respects, and (ii) the sources of the Paragraph (a) information were reliable. The quotations did not represent a customer's indication of unsolicited interest. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 15c2-11 and NASD Rule 2110.
5. For each quotation described in paragraph four, the firm failed to file a Form 211 with FINRA at least three business days before the quotation was published or displayed in a quotation medium. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 6640.
6. During June 2007, JEFF's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD, concerning the publishing of quotations on the Pink Sheets, LLC relating to unsolicited customer orders received from another broker-dealer. Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (a) the identification of the person(s) responsible for supervision with respect to the applicable rules; (b) a statement of the supervisory step(s) to be taken by the identified person(s); (c) a statement as to how often such person(s) should take such step(s); and (d) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes a violation of NASD Rules 2110 and 3010.

7. During the third trimester of 2007, the firm failed to accept or decline in the FINRA/ NASDAQ Trade Reporting Facility 1,096 transactions in Reportable Securities within 20 minutes after execution, approximately three percent of all transactions that the firm had an obligation to accept or decline as the OEID during the period reviewed. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130(b).
 8. During the fourth quarter of 2007, in 49 instances, the firm failed to execute orders fully and promptly. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 2111(a).
 9. During the fourth quarter of 2007, in 27 of the 49 transactions for or with a customer described in paragraph eight, the firm failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions, as reflected on Exhibit C, attached hereto. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 2320.
- B. The firm also consents to the imposition of the following sanctions:

A censure; fines totaling \$110,000 (comprised of \$30,000 for the firm's OATS-reporting violations, \$15,000 for the firm's SEC Rule 15c2-11 violations and \$10,000 for the firm's related supervisory violations, \$25,000 for the firm's trade reporting violations and \$30,000 for the firm's market order timeliness and best execution violations); **restitution** to the investors adversely affected by the best-execution failures identified on Exhibits A and C, which are attached, **in the total amount of \$4,757.44**, plus interest at the rate set forth in Section 6621(a) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from the date of the violative conduct until the date this AWC is accepted by the National Adjudicatory Council; **and an undertaking** to revise the firm's written supervisory procedures with respect to the areas described in paragraph I.A.6.

Within 30 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraph I.A.6; and (3) the date(s) the revised procedures were implemented.

A registered principal of the firm shall submit satisfactory proof of payment of the restitution, or of reasonable and documented efforts undertaken to effect restitution, to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850** or in an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org

@finra.org, no later than 120 days after acceptance of this AWC. If for any reason, Respondent cannot locate any customer after reasonable and documented efforts within such period, or such additional period agreed to by the staff, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed-property or abandoned-property fund for the state in which the customer is known to have last resided.

The firm agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. The firm has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the firm;
- B. To be notified of the 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 National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives 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.

The firm further specifically and voluntarily waives any right to claim that a person violated the *ex parte* prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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.

III.

OTHER MATTERS

The firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary records;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

4. the firm 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. The firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

12/22/10
Date

Respondent

Jefferies & Company, Inc.

By: [Signature]

Name: MICHAEL J. SHARP

Title: EVP & General Counsel

Reviewed by:

[Signature]

Counsel for Respondent

Michael Solomon, Esq.

Managing Director and Associate

General Counsel, Regulatory Matters

Jefferies & Company, Inc.

520 Madison Avenue, 10th Floor

New York, NY 10022

Accepted by FINRA:

1/15/11
Date

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

[Signature]
Thomas R. Gira
Executive Vice President
Department of Market Regulation

AWC Exhibit A

Item No.	Order Receipt Date	Order Receipt Time	Order to Buy/Sell	Quantity	Issue	Order Execution Time	Total Order Duration*	Restitution Due
1	1/3/2007	11:32:28	B	4900	BFBC	11:34:45	0:02:17	\$296.66
2	1/3/2007	11:49:47	S	3100	WGII	11:52:45	0:02:58	\$90.00
3	1/3/2007	14:06:32	B	5000	BHIP	14:10:24	0:03:52	\$211.79
4	1/4/2007	10:50:24	S	1074	MOVI	10:51:25	0:01:01	\$8.74
5	1/4/2007	15:52:52	B	265	WPPGY	15:54:09	0:01:17	\$17.15
6	1/9/2007	09:40:04	B	3400	EPCT	09:41:04	0:01:00	N/A
7	1/10/2007	09:36:11	B	150	FMDAD	09:39:23	0:02:47	\$13.50
8	1/10/2007	10:36:56	B	400	FMDAD	10:37:52	0:00:56	\$56.00
9	1/10/2007	12:12:31	S	4	FMDAD	12:13:06	0:00:35	N/A
10	1/17/2007	13:45:19	B	2500	NYNY	13:46:29	0:01:06	\$31.00
11	1/23/2007	09:33:26	B	300	LINE	09:34:44	0:01:18	N/A
12	1/25/2007	13:16:58	B	9	WPPGY	13:19:29	0:02:31	N/A
13	1/29/2007	11:53:15	S	2500	KELYA	11:57:46	0:04:15	\$67.86
14	02/2/2007	10:25:14	S	2000	JBSS	10:28:22	0:03:08	\$372.00
15	2/13/2007	14:52:47	S	6	NCTY	14:58:12	0:05:25	N/A
16	2/21/2007	10:05:59	SX	1346	LHCG	10:08:12	0:02:13	N/A
17	2/21/2007	11:30:30	S	12	FMDA	11:33:29	0:02:59	N/A
18	2/26/2007	08:08:23	B	100	JADE	09:36:33	0:06:30	\$10.00
19	2/26/2007	09:47:43	S	50	ADTN	09:48:17	0:00:34	N/A
20	2/26/2007	14:57:07	B	429	MSCS	14:58:03	0:00:56	N/A
21	2/27/2007	15:56:09	B	700	NITE	15:57:51	0:01:24	\$6.00
22	2/28/2007	09:40:07	S	50	ISOT	09:44:36	0:04:28	\$47.00
23	3/1/2007	13:08:17	S	200	YHOO	13:09:09	0:00:50	\$1.00
24	3/2/2007	13:59:29	S	2000	INCY	14:00:42	0:01:13	N/A
25	3/7/2007	13:11:31	B	190	BRNC	13:16:05	0:04:34	\$5.70
26	3/9/2007	13:46:44	B	1000	FMDA	13:47:44	0:00:59	N/A
27	3/15/2007	10:50:06	S	1000	VVUS	10:50:40	0:00:34	\$6.11
28	3/16/2007	11:02:42	S	500	HOFF	11:04:46	0:02:04	N/A
29	3/16/2007	13:28:41	S	8	BBBY	13:29:12	0:00:31	N/A
30	3/20/2007	12:35:38	B	90	BBBY	12:36:09	0:00:30	\$1.80
31	3/20/2007	12:46:57	B	6	BBBY	12:47:28	0:00:31	N/A
32	3/21/2007	09:42:36	S	2000	TSTC	09:43:36	0:01:00	\$80.00
33	3/21/2007	14:35:30	S	3	BBBY	14:36:01	0:00:31	N/A
34	3/21/2007	14:47:17	S	8	BBBY	14:47:48	0:00:31	N/A
35	3/22/2007	09:55:10	S	500	BCRX	09:59:22	0:04:12	N/A
36	3/23/2007	15:58:40	S	500	TWMC	15:59:36	0:00:55	\$4.50
37	3/27/2007	11:43:07	B	23	BBBY	11:43:39	0:00:32	N/A
38	3/27/2007	12:36:10	S	18	BBBY	12:36:41	0:00:31	N/A
39	3/27/2007	12:48:00	B	56	BBBY	12:48:31	0:00:31	N/A
40	3/27/2007	14:23:36	S	41	BBBY	14:25:07	0:01:31	N/A
41	3/29/2007	11:47:49	S	38	BBBY	11:48:23	0:00:34	N/A
42	3/29/2007	13:45:17	B	22	BBBY	13:45:48	0:00:31	N/A
43	3/30/2007	12:16:28	S	1000	JMBA	12:17:10	0:00:42	\$19.00
TOTAL:							\$1,345.81	
* The Total Duration takes into account more than the simple difference between Order Receipt Time and Order Execution Time, excluding, for instance, any time when the inside market was locked or crossed during the lifetime of the underlying order.								

Jefferies and Company, Inc ("JEFF")
Matter No. 20070095219
(included within 20070093443)

AWC Exhibit B

Number	Quote Date and Time	Quote Type	Symbol	MMID	Trader	Bid Price	Bid Qty	Ask Price	Ask Qty
7A	2007-06-13 13:51:49	Quote Updated	IPXL	JEFF	JEFFBBD			11.9000	100
8A	2007-06-13 14:01:24	Quote Updated	IPXL	JEFF	JEFFBBD			11.8500	100
9A	2007-06-13 14:01:32	Quote Updated	IPXL	JEFF	JEFFBBD			11.9000	100
13A	2007-06-13 15:56:14	Quote Updated	IPXL	JEFF	JEFFBBD			11.9000	100
27A	2007-06-13 15:44:25	Quote Updated	MPCS	JEFF	JEFFBBD			189.0000	100
28A	2007-06-13 15:44:27	Quote Updated	MPCS	JEFF	JEFFBBD			187.0000	100
29A	2007-06-13 15:44:27	Quote Updated	MPCS	JEFF	JEFFBBD			186.0000	100
30A	2007-06-13 15:44:28	Quote Updated	MPCS	JEFF	JEFFBBD			185.0000	100

AWC Exhibit C

* The Total Duration takes into account more than the simple difference between Order Receipt Time and Order Execution Time, excluding, for instance, any time when the inside market was locked or crossed during the lifetime of the underlying order.