

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E3A2004005401

TO: Department of Enforcement
NASD

RE: J. Scott Securities Corporation, Respondent
Member
CRD No. 47007

Pursuant to Rule 9216 of NASD Code of Procedure, J. Scott Securities, Inc. ["Respondent" 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 the firm alleging violations based on the same factual findings.

Respondent 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 the firm; 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 the firm's 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. 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 allegation in this AWC or create the impression that the AWC 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 NASD is not a party.

Respondent 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:

Respondent became a member of NASD in August 1999. The firm's membership is current and it has not previously been the subject of disciplinary action.

I.

WAIVER OF PROCEDURAL RIGHTS

Respondent 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 the firm;
- 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, Respondent 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.

Respondent 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. Respondent hereby accepts and consents, without admitting or denying the allegations or 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. Between January 2002 and March 2003, Respondent's supervisory system and the written procedures established to implement that system were not reasonably designed to achieve compliance with rules pertaining to the suitability of mutual fund share class recommendations and the disclosure of all information relevant to a customer's election to purchase a particular share class, in violation of NASD Conduct Rules 2110 and 3010;
 2. NASD Conduct Rule 3011, which became effective on April 24, 2002, requires NASD members to develop and implement a written anti-money laundering program reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act, 32 U.S.C. § 5311, et seq., and the regulations promulgated thereunder. NASD communicated to its members the requirement to establish and maintain a written anti-money laundering program in Notice to Members 02-21, issued in April 2002, and reiterated the requirement in Notices to Members 02-47 (August 2002), 02-50 (August 2002), 02-78 (November 2002), 02-80 (December 2002) and 03-34 (June 2003).
 3. From April 24, 2002 through June 10, 2003, Respondent did not develop and implement a written anti-money laundering program that was reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act, 32 U.S.C. § 5311, et seq., and the regulations promulgated thereunder. The firm identified an AML contact person and, therefore, received the FinCEN e-mail notifications and reviewed the firm's customers to determine if any matched names included in the notifications, but otherwise did not establish a program, or adopt procedures to implement a program, until June 10, 2003. This constituted a violation of NASD Conduct Rules 2110 and 3011 by Respondent.
 4. On November 21, 2003, November 26, 2003, March 10, 2003 and March 11, 2003, the firm came into possession of customer securities, causing it to become subject to a \$50,000.00 minimum net capital requirement on those dates. Although the firm did not have at least \$50,000.00 in net capital on each date, it continued to conduct a securities business. Conducting a business while failing to maintain the required net capital constituted a

violation of SEC Rule 15c3-1 and NASD Conduct Rule 2110 by Respondent.

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

Censure and a fine of \$20,000.00, which may be paid pursuant to the NASD Installment Payment Plan.

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

III.

OTHER MATTERS

- A. Respondent 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. Respondent 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. Respondent agrees to pay any monetary sanctions imposed on it upon notice that this AWC has been accepted and that such payments are due and payable and has attached an Election of Payment form showing the method by which it propose to pay any fine imposed.
- C. Respondent 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.

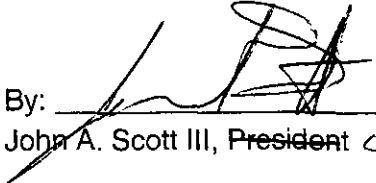
Respondent certifies that it has and understands all of the provisions of this AWC and has been

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 the firm to submit it.

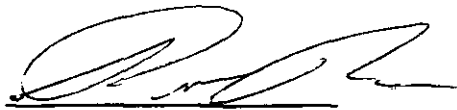
6/20/05

Date

J. Scott Securities Corporation, Respondent

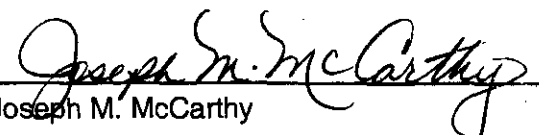
By: 
John A. Scott III, President CEO

Reviewed by:


Counsel for Respondent

Accepted by NASD:

7/19/05
Date


Joseph M. McCarthy
Associate Vice President and District
Director
Signed on behalf of the Director of ODA,
by delegated authority