

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E8A2004101502

TO: Department of Enforcement
NASD

RE: Joseph J. Adamo, Respondent
Registered Principal
(CRD No. 2016233)

Pursuant to Rule 9216 of NASD Code of Procedure, I, Joseph J. Adamo, submit 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 me alleging violations based on the same factual findings.

I understand 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 me; and,
3. If accepted:
 - a. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against me;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about my 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. I 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 my testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

I also understand that my 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:

Joseph J. Adamo ("Adamo") entered the securities industry on September 27, 1993 as a General Securities Representative of a member of NASD. On October 13, 1997, Adamo also became registered as a Financial and Operations Principal of a member of NASD. On April 26, 2000, Adamo became registered in such capacities with NEBS Financial Services, Inc. ("Member"), a member of NASD. On March 12, 2001, Adamo became registered as a General Securities Principal with the Member. He remained registered with the Member in such capacities until December 31, 2004. Adamo is not currently registered with any member of NASD.

On August 12, 2003, the NASD accepted a Letter of Acceptance, Waiver and Consent from Adamo which contained findings that the Member, acting through him: withdrew funds from its special reserve bank account for the exclusive benefit of customers on October 2, 3, and 4, 2001, but failed to make a record of the computation on the basis of which such withdrawals were made in violation of SEC 15c3-3 and NASD Conduct Rule 2110; and failed to maintain sufficient funds in the special reserve bank account for the exclusive benefit of customers in that the account was deficient in the amount of \$41,658.79 on October 4, 2001, in violation of SEC Rule 15c3-3(E) and Conduct Rule 2110. Under the Letter of Acceptance Waiver and Consent, he was fined \$2,500 jointly and severally with the Member.

I.

WAIVER OF PROCEDURAL RIGHTS

I specifically and voluntarily waive the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against me;
- 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, I specifically and voluntarily waive 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.

I further specifically and voluntarily waive 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. I hereby accept and consent, 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:

Background of NEBS Financial Services, Inc.

NEBS Financial Services, Inc. ("Member") offered brokerage services and retirement planning to 401(k) and 403(b) plan to clients as a third party retirement fund administrator. The Member became registered with the SEC and a member of NASD on April 26, 2000. The Member is currently in liquidation and a SIPIC trustee has been appointed. Due to the liquidation of the Member, its registration with the SEC and membership with NASD were terminated in December 2004.

From 2000 through December 2004, the Member had several affiliated entities. NEBSonline, Inc. ("NEBS") was a holding company which earned no revenue and was the parent of the following entities: the Member, National Employment Benefit Services, NEBS Agency, and NEBS Advisory. NEBS Agency conducted a life insurance business. NEBS Advisory conducted a registered investment advisory business. National Employment Benefit Services conducted an ERISA 403(b) business. The Member offered brokerage services and retirement planning to 401(k) and 403(b) plan to clients as a third party retirement fund administrator,

as well as conducted a third-party administrator ("TPA") non-ERISA 403(b) business. The Member maintained a fully-disclosed clearing arrangement through its clearing firm. Michael Duffy ("Duffy") was NEBS's Chief Financial Officer from 2000 until his death in October 2004.¹

Misuse of Customers' Funds and Rule 15c3-3 Violations

The misuse of customers' funds involved the Member's TPA non-ERISA 403(b) business. The Member utilized a common remitter process for the non-ERISA 403(b) business. The participant school districts wired cash or sent a check to the Member, which was processed thru the Member's (k)(2)(i) account. The Member's (k)(2)(i) account was in the name of the broker dealer, and was labeled account number [REDACTED] Account"). The Member would then send a check or wire cash to the mutual fund companies or insurance companies ("investment providers"), which would then be deposited into individual participant accounts based on an allocation that was provided to NEBS.² The Member processed the checks through a zero balance account for distribution using a check writing service provided through Pitney Bowes.

Beginning in or about December 2002, Adamo routinely caused customer funds to be diverted from the [REDACTED] Account to other bank accounts owned by NEBS and other subsidiaries of NEBS. The customers' funds were then used to pay for the operating expenses of NEBS or subsidiaries of NEBS. At various times, between December 2002 and October 2004, funds that were diverted out of the [REDACTED] Account were then transferred back into the account and then used to purchase securities and insurance products for the customers of the Member. Therefore, the Member, acting through Adamo, was using customer funds to pay operating expenses for NEBS and its subsidiary companies.

It is not possible to determine the exact amount of these misuses of customers' funds, and the dates of each instance of the misuse by the Member and Adamo, because there were a very large number of instances when customers' funds were withdrawn from the [REDACTED] Account and then returned to the [REDACTED] Account at a later date. At least a total of \$1,940,177 of customer's funds were misused, because that was the amount that was not returned to the Member from NEBS and its subsidiaries when the Member ceased securities business. For example, just in the month of September 2004, eight checks totaling \$245,000 were written from the Member's [REDACTED] Account, which held customer's funds, and were made payable to National Employee Benefit Services, an affiliate of the Member, or NEBS and were deposited into those companies' operating accounts. Adamo and Duffy signed these checks, and the other checks to NEBS and its subsidiaries operating accounts.

¹ Duffy apparently committed suicide on October 13, 2004.

² The Member issued checks to third parties, as described above, because not all of the investment providers accepted wire orders.

In addition, prior to his death, Duffy would take some checks that were prepared and ready to be sent to investment providers for the purchase of securities or insurance products, so that the customers' funds would not be withdrawn from the [REDACTED] Account. When secretaries at the Member asked him why taking some of the checks, Duffy claimed he was doing "spot checks" of the checks to ensure their accuracy. Duffy would then transfer the customers' funds from the [REDACTED] Account to pay the operating expenses for NEBS and various subsidiaries of NEBS.

Adamo was aware that customers' funds were being diverted from the Member's [REDACTED] Account into an operating account of NEBS or one of its subsidiaries, and he was aware that the proceeds were being used to pay the expenses of these companies. Adamo would prepare a check under his signature using funds that were taken from the [REDACTED] Account and moved to the affiliate's operating account. If the customers' funds were not used to pay for the expenses of the broker/dealer's affiliated companies, the affiliated companies would not have been able to pay its expenses. Adamo also knew that the funds in the [REDACTED] Account should have been used to fund the customers' retirement accounts. The funds were being used to make up the shortfall between the Member's monthly expenditures and its monthly revenues. This shortfall was referred to as the "nut." Duffy maintained a spreadsheet which detailed the amounts that were necessary to pay for the expenses of NEBS and its subsidiaries. When funds were needed, a check was drawn from the [REDACTED] Account and deposited into the operating accounts of NEBS or its subsidiaries. These funds were then used to pay for the expenses of NEBS and its subsidiaries. When funds were no longer needed by NEBS and its subsidiaries, funds were transferred back into the [REDACTED] Account. Adamo had concerns that customers' money was being used inappropriately, but his concerns only began when it appeared that money was not being returned to the [REDACTED] Account.

By engaging in such conduct, Adamo violated SEC Rule 15c3-3 and NASD Conduct Rules 2110 and 2330.

Knowingly Submitting False Information to NASD

The Member's initial routine examination was conducted in December 2000 and resulted in a Letter of Caution, which noted that Duffy, who was never registered in any capacity with NASD, failed to properly register as a Financial and Operational Principal. The Member responded to the Letter of Caution by saying:

The person responsible for the supervision of the broker-dealer has always been Bruce C. Kosinski, a General Securities Principal (GSP). Mr. Kosinski was assisted in his general duties by Mr. Joseph Adamo, a Financial and Operational (sic) Principal

(FINOP). Mr. Duffy as Chief Financial Officer of NEBSOnline, Inc. has had some involvement at NEBS Financial Services, Inc. Mr. Duffy was supervised by Mr. Kosinski and Mr. Adamo. We understand this situation to be acceptable under the rules of the NASD. Nonetheless, NEBS sees the worth of the preparation and successful completion of the Financial and Operational (sic) Principal qualifying exam. As such, Mr. Duffy is presently registered to take the Series 27 exam. Per the CRD, he must complete the test by May 11, 2001.

Duffy registered to take the examination in 2001, but never took the examination.

A second routine examination was conducted in January 2002 and resulted in another Letter of Caution. During the Member's first examination, the staff asked the Member why Duffy was not registered as a Financial and Operational Principal. The Member, through Adamo, responded that:

As of December 2001, Mr. Duffy's status has been voluntarily reduced to that of part-time. Mr. Duffy has been and continues to be the Chief Financial Office of NEBSOnline, Inc. and not of NEBS Financial Services, Inc. NEBSOnline is the parent company of NEBS Financial Services. Mr. Duffy has never and will not have any supervision responsibilities over any individual or activity at NEBS Financial Services until and if he obtains a Financial and Operations Principal designation. Mr. Duffy may, in his role of CFO for the parent company, assist in the preparation of financial reports for NEBS Financial Services but under the direction and supervision of Joseph Adamo, the designated FINOP.

In fact, Adamo always reported directly to Duffy, Duffy held regular performance evaluations of Adamo, these evaluations determined Adamo's salary and Duffy had the power to terminate Adamo's employment with the Member. Duffy was Adamo's direct supervisor. Adamo was responsible for filing the Member's FOCUS filings and other financial statements, and he used the numbers that were provided by Duffy. Adamo relied on Duffy's knowledge of what was required by NASD, and the fact that Duffy was a CPA and that Adamo felt comfortable that the information being provided was accurate.

Adamo's response to NASD's 2002 examination Letter of Caution was false and misleading. It was drafted to make it appear that his reporting relationship with Duffy would not require Duffy to be registered as a Financial and Operational Principal. In fact, NASD Rules required Duffy to be so registered, because he was supervising Adamo. Adamo admitted that his response to the Letter of Caution was purposefully crafted in order to "keep the wolves [NASD staff] from the door."

By engaging in such conduct, Adamo violated NASD Conduct Rule 2110.

- B. I also consent to the imposition, at a maximum, of the sanction of a bar from association with any member of NASD in any capacity.

The sanctions imposed herein shall be effective on a date set by NASD staff. Pursuant to IM-8310-2(f), a bar or expulsion shall become effective upon approval or acceptance of this AWC by the NAC.

III.

OTHER MATTERS

- A. I understand that if I am barred or suspended from associating with any NASD member, I become subject to a statutory disqualification as that term is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended. Accordingly, I may not be associated with any NASD member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension. (See NASD Rule 8310 and IM-8310-1.)

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I certify that I have read and understand all of the provisions of this AWC and have 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 me to submit it.

11/14/06
Date

Joseph J. Adamo
Joseph J. Adamo
Registered Principal

Reviewed by:

Richard S. Schultz
Counsel for Respondent

Accepted by NASD:

11/20/06
Date

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

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