

UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION

**CORRECTED COPY**

SECURITIES EXCHANGE ACT OF 1934  
Release No. 54861 / December 1, 2006

ADMINISTRATIVE PROCEEDING  
File No. 3-12495

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In the Matter of	)	
	)	ORDER INSTITUTING ADMINISTRATIVE
	)	AND CEASE-AND-DESIST PROCEEDINGS,
	)	MAKING FINDINGS, AND IMPOSING REMEDIAL
JEFFERIES & CO., INC. and	)	SANCTIONS AND A CEASE-AND-DESIST
	)	ORDER PURSUANT TO SECTIONS 15(b) AND
SCOTT JONES,	)	21C OF THE SECURITIES EXCHANGE ACT
	)	OF 1934
Respondents.	)	

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**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Jefferies & Co., Inc. (“Jefferies” or the “firm”) and that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Exchange Act against Scott Jones (“Jones”) (collectively, “Respondents”).

**II.**

In anticipation of the institution of these proceedings, Respondents Jefferies and Jones have submitted Offers of Settlement (the “Offers”) that the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party and without admitting or denying the findings herein, except as to the Commission's jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents Jefferies and Jones consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Order”), as set forth below.

### III.

On the basis of this Order and Respondents' Offers, the Commission finds<sup>1</sup> that:

#### A. RESPONDENTS

1. Jefferies is registered with the Commission as a broker-dealer (File No. 8-15074) pursuant to Section 15(b) of the Exchange Act and provides securities brokerage services primarily to institutional customers.

2. Scott Jones, age 50, resides in Chicago, Illinois. Since November 1980, he has been employed by Jefferies in various capacities. He is a member of Jefferies' board of directors. In 1998, he became director of equities. He was Quinn's immediate supervisor for most of Quinn's employment at Jefferies.

#### B. OTHER RELEVANT PARTY

3. Kevin Quinn, age 40, resides in Needham, Massachusetts. From May 2002 until his employment was terminated on October 11, 2004, he was associated with Jefferies as an account executive and held the position of senior vice president, equity and sales.

#### C. FACTS

#### Summary

4. This proceeding concerns Quinn's provision of approximately \$2 million in extensive travel, entertainment and gifts to certain employees of an investment adviser (the "Fund Adviser") to a family of mutual funds (the "Funds"). The employees included several securities traders, whose responsibilities included directing securities transactions for the Funds to brokerage firms for execution, and the head of the Fund Adviser's global equity trading desk ("Head of Equity Trading"), who supervised the securities traders and decided which securities

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<sup>1</sup> The findings herein are made pursuant to Respondents' Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.

brokerage firms would be approved to handle equity transactions for the Funds.<sup>2</sup>

5. Jefferies hired Quinn in May 2002 in an effort to increase the firm's brokerage business with the Funds. The firm anticipated that Quinn's business relationship with the Fund Adviser would generate as much as \$50 million in commission revenues per year for Jefferies. To land Quinn as an expected rainmaker, the firm offered him an unprecedented compensation package whereby Jefferies would pay Quinn \$4 million per year in salary and would provide him and his team of brokers with an annual travel and entertainment ("T&E") budget of \$1.5 million, including pre-paying vendors of Quinn's choice for his blocks of flight hours on private planes for business travel and entertainment.

6. From May 2002 until his employment was terminated in October 2004, Quinn sought to obtain additional brokerage business from the Funds. A skilled amateur golfer with connections at many exclusive golf courses, Quinn took a small group of traders on expensive golf trips, flying them on private planes, lodging them at fine hotels, and at times, providing them with golf merchandise and other presents. He also made private planes available for the traders to take on personal trips without his attendance. He gave tickets to the Fund Adviser's traders for major sporting events (such as Wimbledon and the U.S. Open), Broadway shows, and concerts, again without his attendance. He even helped pay for one trader's elaborate bachelor party in Miami. Quinn also included the Head of Equity Trading on some of the golf excursions and made a private plane available for his personal use. He also used significant amounts of his T&E budget for personal use of extensive private plane travel, expensive hotels, meals, car service, and tickets to major sporting events for himself, his family, and several friends who were not affiliated with the Fund Adviser. Although this latter category of expenditures was unrelated to Quinn's entertainment of the Fund Adviser's traders, he improperly sought and obtained reimbursement from Jefferies for these expenses.

7. Section 17(e)(1) of the Investment Company Act of 1940 ("Investment Company Act") makes it unlawful for an affiliated person of a registered investment company, or an affiliate of an affiliate, when acting as an agent, to accept compensation from any source (other than a salary or wages from the registered investment company) for the purchase or sale of any property to or for the registered investment company. The traders were affiliated persons of the Fund Adviser, which is an affiliated person of registered investment companies (the Funds), because the Fund Adviser advises those funds. The Fund Adviser's employees' receipt of travel, entertainment and gifts from Quinn constituted compensation within the scope of the prohibition of Section 17(e)(1) of the Investment Company Act.

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<sup>2</sup> Several of the traders are no longer employed by the Fund Adviser, and the Head of Equity Trading has been reassigned to another position with an entity related to the Fund Adviser.

8. Section 17(a)(1) of the Exchange Act and Rule 17a-3 thereunder require every registered broker-dealer to make and keep current accurate books and records, including ledgers reflecting, among other things, all expenses.

9. Section 15(b)(4) of the Exchange Act authorizes the Commission to censure a broker or dealer for failing reasonably to supervise, with a view to preventing violations of the federal securities law, another person who commits such a violation, if that person is subject to the broker or dealer's supervision.

10. Section 15(b)(6) of the Exchange Act, incorporating by reference Section 15(b)(4)(E) of the Exchange Act, authorizes the Commission to sanction a person associated with, or at the time of the alleged misconduct was associated with, a broker or dealer for failing reasonably to supervise, with a view to preventing violations of the federal securities law, another person who commits such a violation, if that person is subject to the person's supervision.

11. After providing Quinn and his team with an annual T&E budget of \$1.5 million to spend on the Fund Adviser's employees, Jefferies failed reasonably to implement its existing policies and procedures and failed to develop new procedures to determine whether Quinn provided them with compensation in violation of Section 17(e)(1) of the Investment Company Act. Quinn was not required to obtain prior approval for his T&E expenditures or to account for his use of pre-paid private plane hours, which enabled Quinn to make private planes available to some of the Fund Adviser's employees for their personal use without firm oversight. Although Jones, Quinn's immediate supervisor, did review Quinn's requests for reimbursement of T&E expenses, he routinely approved vouchers that indicated, on their face, that Quinn had given some of the Fund Adviser's employees items worth more than \$100, in violation of the firm's policy, or that Quinn had not accompanied the Fund Adviser's employees on a private plane flight or to a particular event, in which case the expenses were gifts and could not properly be reimbursed under the firm's policy. Further, Jefferies books and records of expenses were inaccurate as a result of Quinn's submission and Jefferies' approval of T&E vouchers in which Quinn characterized his personal use of T&E funds as reimbursable business expenses.

12. Jefferies failed reasonably to supervise, within the meaning of Section 15(b)(4)(E) of the Exchange Act, Quinn, with a view to preventing Quinn's aiding and abetting of the Fund Adviser's employees' violations of Section 17(e)(1) of the Investment Company Act. Jefferies also violated Section 17(a)(1) of the Exchange Act and Rule 17a-3 thereunder by failing to make and keep current books and records that accurately reflected expenses. In addition, Jones failed reasonably to supervise, within the meaning of Section 15(b)(6) of the Exchange Act, incorporating by reference Section 15(b)(4) of the Exchange Act, Quinn, with a view to preventing Quinn's aiding and abetting violations of Section 17(e)(1) of the Investment Company Act.

### **Quinn's Employment Agreement with Jefferies**

13. Prior to joining Jefferies, while he was employed at two other registered broker-dealers, Quinn developed business relationships with several of the Fund Adviser's securities traders and assembled a team of registered representatives to handle securities transactions for the Funds. Quinn left the second of these firms in March 2002 when it closed its U.S. equity division.

14. In May 2002, Jefferies agreed to hire Quinn and his team in order to increase its brokerage business with the Fund Adviser. The firm's then-president and chief operating officer (and also a member of its board of directors), conducted the initial interview with Quinn. Jefferies had received \$4.3 million in equity commissions from the Fund Adviser in 2001, and the firm's President concluded that Quinn's relationship with the Fund Adviser's employees could generate as much as \$50 million in additional commission revenues per year for Jefferies.

15. On May 8, 2002, Jefferies and Quinn entered into an employment contract whereby Quinn would start working at the firm's Boston office on September 3, 2002. The employment contract – which the firm's then-president approved – provided that Quinn would receive a guaranteed salary of \$1.3 million for the remainder of 2002 and a guaranteed salary of \$4 million per year in 2003 and 2004.<sup>3</sup> The contract also provided that Quinn and his team would receive a bonus if the adjusted gross commissions from the Fund Adviser exceeded certain target levels.<sup>4</sup> In addition, the contract provided Quinn and his team with a \$500,000 T&E expense account for the remainder of 2002 and with a \$1.5 million annual T&E expense account in 2003 and 2004. Quinn was allowed to start using the T&E expense account during the summer of 2002, even though he did not become a registered representative in Jefferies' Boston office until after September 3, 2002.

16. Both the amount of Quinn's guaranteed salary and the T&E budget was unprecedented for the firm in several respects. First, Quinn received a guaranteed salary of \$4 million (later \$4.75 million), whereas other brokers at Jefferies were paid on a commission basis. Second, Jefferies funded the Quinn team's \$1.5 million T&E budget, whereas other brokers at Jefferies had to pay their T&E expenses out of their own commissions. Third, Jefferies agreed to

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<sup>3</sup> On April 21, 2003, the employment contract was amended to provide Quinn with a guaranteed salary of \$4.75 million in 2004.

<sup>4</sup> While Quinn and his team were employed at Jefferies, their adjusted gross commissions from the Fund Adviser were too low to trigger their entitlement to any bonus.

pre-pay for Quinn's use of private planes for business travel, whereas other brokers at Jefferies were required to obtain prior approval for use of private planes chartered by Jefferies.

### **Jefferies' Written Policies Concerning Travel, Entertainment and Gifts**

17. At all relevant times, Jefferies maintained a *Statement of Policy on Standards of Employee Conduct* ("*Statement of Policy*"), which prohibited the giving of gifts of substantial value to, or inappropriate entertainment of, persons doing business with the firm. The *Statement of Policy* was distributed annually, and all employees were required to review the policy and sign an acknowledgment of its receipt. The *Statement of Policy* prohibited any Jefferies employee from giving goods or services to a customer worth more than \$100 per year without prior approval from the employee's manager. NASD Rule 3060 prohibits a broker from providing a customer with gifts and gratuities worth more than \$100 per year.

18. At all relevant times, Jefferies maintained a *Travel and Entertainment Policy* ("*T&E Policy*") which provided that requests for reimbursement of T&E expenses should identify the customers who attended the event, the business purpose of the event, and the business topics discussed during the event, and should include original itemized receipts for all expense items. In addition, a Jefferies employee was not entitled to reimbursement for event-related expenses unless the employee attended the event with the customer. The *T&E Policy* required Jefferies employees to be "responsible and prudent" in spending the firm's money, "as if [the money] were your own." The *T&E Policy* also required managers approving expense reports to identify "expenditures considered excessive or inappropriate" immediately to the employee submitting those receipts.

### **Quinn's Lavish Entertainment of Fund Adviser Employees**

19. Quinn used his \$1.5 million annual T&E budget to entertain the small group of the Fund Adviser's traders from whom he received substantial brokerage business, as well as the Head of Equity Trading.<sup>5</sup>

20. Quinn's most extravagant entertainment of the Fund Adviser's employees involved taking them on golf excursions and other vacations.<sup>6</sup> Examples include:

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<sup>5</sup> The five traders who received the bulk of Quinn's largesse are referred to as Traders A, B, C, D and E. Two other traders who took trips on private planes provided by Quinn are referred to as Traders F and G.

<sup>6</sup> The Fund Adviser employees sometimes tried to reimburse Quinn for travel, lodging and other expenses involved in these excursions, but the amount of their reimbursement almost never equaled the actual cost of the expenses.

a. In November 2002, Quinn took the Head of Equity Trading and Traders A and B on a so-called "Fall Classic" golf excursion to Las Vegas, Nevada, and Cabo San Lucas, Mexico. The trip lasted four days. Quinn provided private plane flights and lodging at expensive hotels (including the Bellagio in Las Vegas). He also gave each Fund Adviser employee golf merchandise and DVD players as golf prizes. The total cost for Jefferies was more than \$215,000.

b. In December 2002, Quinn took Trader B for a golf weekend in South Carolina and Florida. Quinn provided private plane flights, lodging, limousine service, and golf prizes. The total cost for Jefferies was more than \$35,000.

c. In January 2003, Quinn took the Head of Equity Trading and Trader A for a golf weekend in Georgia. Quinn provided private plane flights and lodging. The total cost for Jefferies was nearly \$45,000.

d. In February 2003, Quinn took Trader C and his family on a vacation in Palm Beach, Florida. Quinn provided private plane flights, use of the facilities at the Breakers Hotel, limousine service, and a rental car. The total cost for Jefferies was more than \$80,000.

e. In March 2003, Quinn joined with representatives of other brokerage firms to pay for Trader A's bachelor party in Miami. Quinn provided private plane flights and limousine service for the Head of Equity Trading, Trader A, several employees of other securities brokerage firms, and assorted guests to attend the party. The total cost for Jefferies was more than \$75,000.

f. In December 2003, Quinn took Traders A and B on another "Fall Classic" golf excursion, this time to Las Vegas, Nevada, and Scottsdale, Arizona. The trip lasted four days. Quinn provided private plane flights, lodging at expensive hotels (including the MGM Grand in Las Vegas), and limousine service. He also gave each Fund Adviser employee golf merchandise and other items as golf prizes. The total cost for Jefferies was nearly \$160,000.

g. In January 2004, Quinn took Trader A to the Super Bowl in Houston and while there, entertained Trader B. Quinn provided private plane flights, lodging at the Lancaster-King Hotel, tickets to the Playboy pre-game party, and a rental car. The total cost for Jefferies was over \$150,000.

h. In February 2004, Quinn took Trader C and his family on a vacation in Palm Beach, Florida. Quinn provided private plane flights, lodging at the Breakers Hotel, and a rental car. The total cost for Jefferies was more than \$62,500.

21. The private plane flights, fancy hotels, limousines and rental cars, and golf equipment, DVD players and other "prizes" provided by Quinn constituted compensation to the

Fund Adviser's employees within the scope of the prohibition in Section 17(e)(1) of the Investment Company Act.

22. On many occasions, Quinn simply paid for some of the Fund Adviser's employees to take a private plane for their personal use.<sup>7</sup> Examples include:

a. In November 2002, Trader F and his family traveled from Boston to and from Orlando, Florida. The cost for Jefferies was nearly \$25,000.

b. In January 2003, Trader C and his wife flew from Naples, Florida to Boston. The cost for Jefferies was more than \$20,000.

c. In February 2003, the Head of Equity Trading flew from Monterey, California, to Boston. The cost for Jefferies was nearly \$45,000.

d. In September 2003, Trader A and his wife flew from Boston to Nantucket. A few days later, they flew from Nantucket to Los Angeles and then returned from Los Angeles. The total cost for Jefferies was nearly \$75,000.

e. In November 2003, Trader G and his wife flew to and from St. Thomas, U.S.V.I. The cost for Jefferies was more than \$46,000.

f. In December 2003, the Head of Equity Trading flew to Florida for the weekend. The cost for Jefferies was more than \$45,000.

g. In late December 2003, Trader A and his wife flew to Florida for the weekend. The cost for Jefferies was more than \$31,000.

h. In March 2004, Trader B and his wife and Trader D and his girlfriend flew to the Bahamas and Turks & Caicos for vacation. The cost for Jefferies was more than \$47,000.

23. The use of a private plane at Jefferies' expense constituted compensation to the Fund Adviser's employees within the scope of the prohibition in Section 17(e)(1) of the Investment Company Act.

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<sup>7</sup> Quinn remarked in an email to a Fund Adviser trader in November 2002, "I view private plane travel as one of the great perks of this biz and am more than willing to do it for a few guys when I can ... just as long as they keep it low."



24. Quinn also provided some of the Fund Adviser's employees with tickets to sporting events and concerts along with expensive wine. For example:

a. Quinn gave Trader E tickets to attend the Wimbledon and U.S. Open tennis tournaments. The total cost to Jefferies of the Wimbledon tickets in 2002, 2003 and 2004 was nearly \$90,000, the total cost of U.S. Open tickets in 2002 and 2003 was more than \$17,000, and when Trader E attended Wimbledon in 2004, Jefferies also paid \$12,000 for his hotel in London. Quinn did not attend any of these events.

b. Quinn provided some of the Fund Adviser's employees, including traders and a senior Fund Adviser officer, with numerous tickets to the theater (such as "The Lion King," "Hairspray," "Beauty and the Beast," "The Producers" and "Moving Out"), concerts (such as Bruce Springsteen, Justin Timberlake, Prince and Santana), the circus, and professional baseball, basketball, football and hockey games.<sup>8</sup> Quinn rarely attended these events with the Fund Adviser's employees.

c. Quinn provided the Fund Adviser's traders with extremely expensive bottles of wine as Christmas gifts. For example, Quinn gave Trader E over \$13,000 worth of wine over two Christmases, and he provided over \$4,000 worth of wine as a Christmas gift to Trader B.

25. The receipt of tickets at Jefferies' expense constituted compensation to the Fund Adviser employees in violation of Section 17(e)(1) of the Investment Company Act.

**Jefferies' Increased Business  
with the Fund Adviser after Quinn's Hiring**

26. Jefferies' status among the securities brokerage firms used by the Funds improved substantially after Quinn joined the firm. Jefferies for the first time began to commit capital in certain of its trades for the Fund Adviser. In addition, on a regular basis, Quinn provided the Fund Adviser's employees with the travel, entertainment and gifts described above.<sup>9</sup>

27. The Fund Adviser's traders were only permitted to send securities transactions to broker-dealers that had been approved by the Head of Equity Trading. The Fund Adviser grouped the approved firms into three categories: (1) "core brokers" handling the large majority of transactions; (2) "watch list brokers" handling a smaller, but still significant, amount of transactions; and (3) other "specialized brokers." Before Quinn began working there in

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<sup>8</sup> In December 2002, Quinn told Trader E that certain tickets were "not easy by the way." Trader E responded, "I know. That's why I asked Kevin 'the Man' Quinn for a big favor."

<sup>9</sup> Quinn once described himself to a Fund Adviser trader as "a whore for biz." He told another trader, "I will do anything for an order (w/ my clothes on)."

September 2002, Jefferies was in the third category as a “specialized third-market” firm. As of January 2003 – after Quinn’s first four months of the firm – the Fund Adviser had moved Jefferies to the second category as a “watch list” firm. As of April 2003 – after another three months of Quinn’s efforts – the Fund Adviser had re-classified Jefferies once again, placing the firm in the first category of “core brokers.”

28. Consistent with its change of status to a “core broker,” the brokerage business that Jefferies received from the Funds increased substantially after Quinn began working there in September 2002. Before Quinn’s arrival, in the second quarter of 2002, Jefferies handled 25.1 million shares of listed securities and 14 million shares of “over-the-counter” (“OTC”) securities for the Funds. With this volume, Jefferies ranked 34<sup>th</sup> for listed securities and 25<sup>th</sup> for OTC securities among the brokerage firms used by the Funds. Jefferies’ volume rose quickly after Quinn’s arrival. In the fourth quarter of 2002, Quinn’s first full quarter of employment, Jefferies’ ranking had risen to 17<sup>th</sup> for listed securities and 18<sup>th</sup> for OTC securities. By the third quarter of 2004, Quinn’s final full quarter of employment, Jefferies handled 277.7 million shares of listed securities and 193.6 million shares of OTC securities. Its volume ranking with the Funds was 13<sup>th</sup> in listed securities and 12<sup>th</sup> in OTC securities.

29. Just as the volume of Jefferies’ brokerage business from the Funds increased, so did the brokerage commissions that the Funds paid to Jefferies. In the first six months of 2002, just prior to Quinn’s arrival, Jefferies received \$1.7 million in brokerage commissions, ranking it 43<sup>rd</sup> among the firms used by the Fund Adviser. By contrast, in the first nine months of 2004, Jefferies received \$24.5 million in brokerage commissions from the Funds, improving its ranking to 13<sup>th</sup> among the firms used by the Fund Adviser. During the period of Quinn’s employment, Jefferies received over \$60 million in commissions from the Funds.

30. Most of the brokerage business that Jefferies received from the Fund Adviser came from four traders (Traders A, B, C and D) who went on most of Quinn’s golf and other excursions and from a fifth trader (Trader E), who received expensive wine and the most expensive tickets to sporting events (such as Wimbledon and the U.S. Open). During the period of Quinn’s employment at Jefferies (September 2002 to October 2004), these five traders sent trades generating approximately \$39.4 million in commissions for Jefferies:

Trader A	\$18.4 million
Trader B	6.5 million
Trader C	2.6 million
Trader D	3.2 million
Trader E	8.7 million

In addition, Traders F and G, both of whom took vacations on private planes supplied by Quinn, sent trades generating an additional \$2.9 million.

31. Although these traders (especially Traders A-E) routinely directed brokerage business to Jefferies after Quinn's arrival, they sometimes sent higher than average volume of business to Jefferies just before or just after Quinn provided them with travel and entertainment.

### **Jefferies' Failure to Supervise Quinn**

32. As noted above, the \$1.5 million annual T&E expense account that Quinn received from Jefferies was unprecedented for the firm. Quinn had only one significant customer, the Fund Adviser, and he obtained most of his brokerage business from only a small group of the Fund Adviser's traders. Giving Quinn and his team \$1.5 million to spend each year on so few of the Fund Adviser's employees created a substantial risk that Quinn would use the money for travel, entertainment and gifts that would constitute compensation to the Fund Adviser employees in violation of Section 17(e)(1) of the Investment Company Act. Jefferies approved and reimbursed Quinn's expenditures to the Fund Adviser's employees and failed reasonably to implement its existing policies and procedures and failed to develop new procedures to determine whether Quinn provided the Fund Adviser's employees with compensation in violation of Section 17(e)(1) of the Investment Company Act.

33. Quinn was not required to obtain prior approval for his T&E expenditures. Jefferies also did not require Quinn to account for his use of pre-paid private plane hours.

34. If Jefferies had reasonably implemented its existing policies and procedures or adopted new procedures to oversee Quinn's use of the T&E expense account, it is likely that Jefferies could have prevented and detected Quinn's securities law violations.

### **Jones' Failure to Supervise Quinn**

35. To be reimbursed for those expenditures after-the-fact, Quinn had to submit vouchers. Consistent with the *T&E Policy*, the vouchers were supposed to identify the customers who attended the event, the business purpose of the event, and the business topics discussed during the event. The vouchers were also supposed to include original itemized receipts for all expense items.

36. Jones, who was Quinn's immediate supervisor, reviewed and approved most of Quinn's expense vouchers.<sup>10</sup> After Jones approved a voucher, he sent it to the Equity Accounting office in New York, which then sent the voucher to the Accounting Department in Los Angeles for payment. Before issuing a reimbursement check, the Accounting Department was supposed to review the voucher to ensure that it had been approved by a supervisor and that it contained proper supporting documentation.

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<sup>10</sup> On certain occasions, especially at the beginning of Quinn's employment at Jefferies, the regional manager in Jefferies' Boston office, rather than Jones, reviewed and approved Quinn's vouchers.

37. From June 2002 until October 2004, Quinn obtained reimbursement for 75 vouchers totaling \$2.8 million. Jones and, on a few occasions, the Boston regional manager, approved the vouchers even though many of them were deficient in several respects, and reflected red flags that Quinn was not complying with firm procedures and could be facilitating the Fund Adviser's employees' violations of Section 17(e)(1) of the Investment Company Act.

38. Many of Quinn's vouchers indicated on their face that he had provided the Fund Adviser's employees with items worth more than \$100. Examples include:

a. Quinn was reimbursed for substantial expenses associated with the so-called "Fall Classic" in November 2002, when he took the Head of Equity Trading and Traders A and B to Las Vegas and Mexico for golf and other activities. Jones approved the reimbursement of \$5,199 for golf merchandise and \$3,360 for four DVD players even though the vouchers (#172262 and 172461) indicated that the items were for the "annual golf outing with Fund Adviser traders."

b. Quinn was reimbursed \$1,391 for merchandise that he claimed to have given to seven of the Fund Adviser's employees (including the Head of Equity Trading and Traders A, B, C and D) in April 2003. Jones approved the reimbursement even though the voucher (#183963) identified the items as "Seminole Golf Outing golf prizes."

c. Quinn was reimbursed for substantial expenses associated with the so-called "Fall Classic" in December 2003, when he took Traders A and B to Las Vegas and Arizona for golf and other activities. Jones approved the reimbursement of \$10,332 for golf merchandise even though the voucher (#196189) identified the items as "golf supplies and prizes."

d. Quinn was reimbursed \$10,333 for wine that he claimed to have given to fifteen Fund Adviser traders in December 2003. (In fact, the wine consisted of cases that Quinn gave to Traders B and E.) Jones approved the reimbursement even though the voucher (#198286) identified the wine as "[the Fund Adviser] Xmas gifts."

39. If Jones had conducted a reasonable examination of these vouchers, he would have seen that Quinn had given the Fund Adviser's employees items worth more than \$100, in violation of the firm's *Statement of Policy*.

40. Many of Quinn's vouchers contained no indication that any Jefferies personnel had accompanied the Fund Adviser's employees to certain events (which, in fact, they had not). Examples include:

a. Quinn was reimbursed \$24,493 for a private plane to Florida that he provided to Trader F and his family in November 2002. Jones approved the reimbursement even though the voucher (#173754) did not indicate that Quinn had been on the flight.

b. Quinn was reimbursed \$3,610 for tickets to “Hairspray” that he gave to Trader E in December 2002. Jones approved the reimbursement even though the voucher (#175227) indicated that the tickets were for one of the Fund Adviser’s senior officials and did not indicate that any Jefferies personnel had attended the event.

c. Quinn was reimbursed \$23,600 for private plane flights to and from Las Vegas that he claimed to have provided to Trader C in March 2003. Jones approved the reimbursement even though the voucher (#180455) did not indicate that Quinn had been on the flight and the attached documentation indicated that Trader C had been the only passenger.

d. Quinn was reimbursed \$31,216 for tickets to the Wimbledon tennis tournament that he gave to Trader E in July 2003. Jones approved the reimbursement even though the voucher (#186167) did not indicate that Jefferies personnel had attended the event.

41. If Jones had conducted a reasonable examination of these vouchers, he would have found no indication that any Jefferies personnel had accompanied the Fund Adviser’s employees to the various events, and thus Quinn was not entitled to reimbursement under the firm’s *T&E Policy*. He would also have seen that the unaccompanied private plane trips and tickets were gifts to a customer worth more than \$100, in violation of the *Statement of Policy*.

42. Some of Quinn’s vouchers were inconsistent with the attached documentation. Examples include:

a. Quinn was reimbursed \$2,948.97 for a private plane to Nantucket that he provided to Trader A and his wife in September 2003. Jones approved the reimbursement. The voucher (#195455) indicated that Quinn and his wife were on the plane along with two Fund Adviser traders and their wives, but the attached air charter invoice indicated that there were only three passengers.

b. Quinn was reimbursed \$46,237 for a private plane to Tortola in the Caribbean that he provided to Trader G and his wife in November 2003. Jones approved the reimbursement. The voucher (#195317) indicated that Quinn was on the plane, but the only person mentioned on the attached air flight detail was Trader G.

c. Quinn was reimbursed \$38,208 for tickets to the Wimbledon tennis tournament that he gave to Trader E in July 2004 and was also reimbursed \$12,809 for the trader’s lodging at a London hotel. Jones approved the reimbursement. The vouchers (#210466 and 210486) listed business discussed as “tech stock volatility,” but the attached invoice did not indicate that any Jefferies personnel had attended the event.

43. If Jones had obtained the charter company invoices and conducted a reasonable examination of these vouchers, they would have found that these were additional instances when no one from Jefferies accompanied the Fund Adviser employee on the trip and thus that Quinn was not entitled to reimbursement under the firm's *T&E Policy*. The unaccompanied flights were gifts to a customer worth more than \$100, in violation of the firm's *Statement of Policy*, and also constituted compensation to the Fund Adviser employees in violation of Section 17(e)(1) of the Investment Company Act.

44. Jones also never required Quinn to account for his use of pre-paid private plane hours. A reasonable review of the charter company invoices would have revealed many additional occasions when no one from Jefferies accompanied a Fund Adviser employee on a private plane trip. Examples include:

a. A flight from California to Boston in February 2003 (worth nearly \$45,000) by the Head of Equity Trading.

b. Round-trip flights between Boston and Florida in December 2003 (worth more than \$45,000) by the Head of Equity Trading and three guests.

c. A flight to Puerto Rico in February 2004 (worth more than \$23,000) by Trader A and his wife.

d. Round-trip flights between Boston and the Bahamas in March 2004 (worth more than \$47,000) by Trader B and his wife and Trader D and his girlfriend.

45. If Jones had conducted a reasonable examination of the charter company invoices, he would have found that these were still more instances when no one from Jefferies accompanied the Fund Adviser employee on a private plane trip and thus that Quinn was not entitled to reimbursement under the firm's *T&E Policy*. Once again, the unaccompanied flights were gifts to a customer worth more than \$100, in violation of the firm's *Statement of Policy*.

46. Jones was a senior Jefferies executive with considerable experience in the brokerage business and Quinn's supervisor. Nevertheless, he failed to reasonably monitor Quinn's use of his \$1.5 million annual T&E expense account to entertain Fund Adviser employees. Indeed, as set forth above, Jones failed to reasonably respond to red flags related to Quinn's use of the T&E expense account. First, Jones approved a number of vouchers that reflected gifts to a customer worth more than \$100, in violation of Jefferies' *Statement of Policy*, as well as expenses that were not eligible for reimbursement under the firm's *T&E Policy*.

47. In particular, Jones failed reasonably to respond to red flags that were reflected on the vouchers themselves, nearly all of Quinn's T&E expenditures were for the benefit of the same handful of Fund Adviser employees – especially the Head of Equity Trading and Traders

A, B, C, D and E. This concentration of Quinn's expenditures on such a small number of people only increased the chance that the expenditures would result in gifts worth more than \$100 and in compensation to the Fund Adviser employees in violation of Section 17(e)(1) of the Investment Company Act.

48. If Jones had reasonably responded to red flags, it is likely that they could have prevented and detected Quinn's securities law violations.

#### **Quinn Sought and Obtained Reimbursement for Improper Expenses**

49. Quinn also submitted T&E vouchers to Jefferies reflecting hundreds of thousands of dollars of expenses that were for his own personal benefit by improperly characterizing them as business expenses.<sup>11</sup> This included private jet travel, along with personal trips with friends and family to such places as Aspen, Colorado; Sea Island, Georgia; and the Masters golf tournament in Augusta, Georgia. Quinn also sought and obtained reimbursement for a private jet flight taken by his supervisor Jones to Florida by improperly submitting a voucher that indicated that the Fund Adviser's Head of Equity Trading was the passenger on the flight.

50. Quinn's submission of improper T&E vouchers and the resulting reimbursement rendered Jefferies' ledgers of its expense accounts inaccurate in violation of Section 17(a)(1) of the Exchange Act and Rule 17a-3 thereunder.

#### **Jefferies' Actions After the Beginning of the Investigation**

51. After an NASD examination in August 2004 raised questions about Quinn's conduct, Jefferies commenced an internal investigation by outside counsel. Upon completion, Jefferies provided the report of the internal investigation to the Commission staff. In October 2004, Jefferies terminated Quinn for cause. Jefferies also fined Quinn's supervisor, Jones, \$250,000, suspended him for 30 days without pay, and ordered him to participate in supervisory and compliance training.

52. In determining to accept Jefferies' Offer, the Commission considered its cooperation with the Commission staff.

### **D. VIOLATIONS**

1. As a result of the conduct described above, Jefferies failed reasonably to supervise Quinn, with a view to preventing and detecting his aiding and abetting violations of Section 17(e)(1) of the Investment Company Act, within the meaning of Section 15(b)(4)(E) of the Exchange Act.

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<sup>11</sup> After his termination, Quinn reimbursed Jefferies for an agreed-upon amount of these expenses.

2. As a result of the conduct described above, Jefferies willfully violated Section 17(a)(1) of the Exchange Act and Rule 17a-3 thereunder by failing to make and keep current accurate books and records of its expenses and compensation records related to its associated persons by means of the submission and approval of T&E vouchers that characterized Quinn's prohibited use of his T&E budget as business expenses of the company.

3. As a result of the conduct described above, Jones failed reasonably to supervise Quinn, with a view to preventing and detecting his aiding and abetting violations of Section 17(e)(1) of the Investment Company Act, within the meaning of Section 15(b)(6) of the Exchange Act, incorporating by reference Section 15(b)(4)(E) of the Exchange Act.

#### IV.

#### UNDERTAKINGS

**1. Independent Compliance Consultant.** Jefferies shall retain, within 30 days of the date of this Order, the services of an Independent Compliance Consultant not unacceptable to the staff of the Commission. The Independent Compliance Consultant's compensation and expenses shall be borne exclusively by Jefferies and Jefferies shall require the Independent Compliance Consultant to conduct a comprehensive review of Jefferies' supervisory, compliance, and other policies and procedures designed to detect and prevent breaches of the firm's policies and the federal securities laws with respect to the provision of gifts, travel, and entertainment by Jefferies and its employees. This review shall include, but shall not be limited to, a review of Jefferies' travel and entertainment of, and gifts to, customers and prospective customers; the provision of training for employees regarding travel and entertainment of, and provision of gifts to, customers; and supervisory review and approval of travel and entertainment expenses submitted by Jefferies' employees. Jefferies shall cooperate fully with the Independent Compliance Consultant and shall provide the Independent Compliance Consultant with access to its files, books, records, and personnel as reasonably requested for the review.

a. Jefferies shall require that, at the conclusion of the review, which in no event shall be more than 120 days after the date of entry of this Order, the Independent Compliance Consultant shall submit a Report to Jefferies and to the staff of the Commission. Jefferies shall require the Independent Compliance Consultant to address in the Report the issues described in paragraph 1 of these undertakings, and to include a description of the review performed, the conclusions reached, the Independent Compliance Consultant's recommendations for changes in or improvements to Jefferies' policies and procedures, and a procedure for implementing the recommended changes in or improvements to Jefferies' policies and procedures.

b. Jefferies shall adopt all recommendations contained in the Report of the Independent Compliance Consultant; provided, however, that within 150 days



from the date of the entry of this Order, Jefferies shall in writing advise the Independent Compliance Consultant and the staff of the Commission of any recommendations that it considers to be unnecessary or inappropriate. With respect to any recommendation that Jefferies considers unnecessary or inappropriate, Jefferies need not adopt that recommendation at that time but shall propose in writing an alternative policy, procedure, or system designed to achieve the same objective or purpose.

c. As to any recommendation with respect to Jefferies' policies and procedures on which Jefferies and the Independent Compliance Consultant do not agree, such parties shall attempt in good faith to reach an agreement within 180 days of the date of the entry of this Order. In the event Jefferies and the Independent Compliance Consultant are unable to agree on an alternative proposal acceptable to the staff of the Commission, Jefferies will abide by the determinations of the Independent Compliance Consultant.

d. Jefferies (i) shall not have the authority to terminate the Independent Compliance Consultant, without prior written approval of the staff of the Commission; (ii) shall compensate the Independent Compliance Consultant, and persons engaged to assist the Independent Compliance Consultant, for services rendered pursuant to this Order at their reasonable and customary rates; and (iii) shall not be in and shall not have an attorney-client relationship with the Independent Compliance Consultant and shall not seek to invoke the attorney-client or any other doctrine or privilege to prevent the Independent Compliance Consultant from transmitting any information, reports, or documents to the staff of the Commission.

e. Jefferies shall require the Independent Compliance Consultant to enter into an agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Compliance Consultant shall not 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. The agreement will also provide that the Independent Compliance Consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the Independent Compliance Consultant in performance of his/her duties under this Order shall not, without prior written consent of the Commission's Boston District Office, 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.

f. **Certification.** No later than twelve months after the date of entry of this Order, the chief executive officer of Jefferies shall certify to the Commission in writing that Jefferies has fully adopted and complied in all material respects with the undertakings set forth in this section IV and with the recommendations of the Independent Compliance Consultant or, in the event of material non-adoption or non-compliance, shall describe such material non-adoption and non-compliance.

g. **Recordkeeping.** Jefferies shall preserve for a period not less than six years from the end of the fiscal year last used, the first two years in an easily accessible place, any record of Jefferies' compliance with the undertakings set forth in this section IV.

h. **Deadlines.** For good cause shown, the Commission's staff may extend any of the procedural dates set forth above.

i. **Other Obligations and Requirements.** Nothing in this Order shall relieve Jefferies of any other applicable legal obligation or requirement, including any rule adopted by the Commission subsequent to this Order.

2. **Compliance Affidavit.** Jones shall provide to the Commission, within ten (10) days after the end of the three-month suspension period described below in Section V, an affidavit that he has complied fully with this sanction. Such affidavit shall be submitted under cover letter that identifies Scott Jones as a Respondent and the file number of these proceedings, and hand-delivered or mailed to David P. Bergers, District Administrator, Boston District Office, 33 Arch Street, 23<sup>rd</sup> Floor, Boston, MA 02110-1424.

## V.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in the Offers of Respondents Jefferies and Jones.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that Respondent Jefferies:

- A. cease and desist from committing or causing any violations and any future violations of Section 17(a)(1) of the Exchange Act and Rule 17a-3 thereunder.
- B. be, and hereby is, censured.
- C. shall, within 10 days of the entry of this Order, pay disgorgement of \$4,214,945.65 and prejudgment interest of \$580,316.26 to the Securities and Exchange Commission. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order;

(B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Jefferies as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to David P. Bergers, District Administrator, Boston District Office, 33 Arch Street, 23<sup>rd</sup> Floor, Boston, MA 02110-1424.

D. shall comply with its undertakings as enumerated in Section IV above.

Accordingly, pursuant to Section 15(b) of the Securities Exchange Act of 1934, it is hereby ORDERED that Respondent Jones:

- A. be, and hereby is, suspended from acting in a supervisory capacity for any broker or dealer for a period of three (3) months, effective beginning the second Monday following the issuance of this Order.
- B. shall, within 10 days of the entry of this Order, pay a civil money penalty of \$50,000 to the Securities and Exchange Commission. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to David P. Bergers, District Administrator, Division of Enforcement, Securities and Exchange Commission, 33 Arch Street, 23<sup>rd</sup> Floor, Boston, MA 02110-1410.
- C. shall comply with his undertaking as enumerated in Section IV above.

**VI.**

Upon further order by the Commission, the Division of Enforcement shall submit a proposed plan for the administration and distribution of the Fair Fund in this matter.

By the Commission.

Nancy M. Morris  
Secretary