

**STATE OF ILLINOIS  
SECRETARY OF STATE  
SECURITIES DEPARTMENT**

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IN THE MATTER OF: DOUGLAS F. CONROD II )  
\_\_\_\_\_) )

FILE NO. 0900279

**NOTICE OF HEARING**

TO THE RESPONDENT: Douglas F. Conrod II  
(CRD #: 2457046)  
93 North Street  
Greenwich, Connecticut 06830

Douglas F. Conrod II (CRD #: 2457046)  
C/o Guggenheim Securities, LLC  
135 East 57<sup>th</sup> Street 7<sup>th</sup> Floor  
New York, New York 10022

Douglas F. Conrod II (CRD #: 2457046)  
C/o Robert A. Giacovas  
Lazare Potter & Giacovas LLP  
950 Third Avenue  
New York, New York 10022

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act") and 14 Ill. Adm. Code 130, Subpart K, a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602, on the 6th day of January, 2010 at the hour of 10:00 a.m. or as soon as possible thereafter, before James L. Kopecky Esq. or such other duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order shall be entered revoking Douglas F. Conrod's (the "Respondent") registration as a salesperson in the State of Illinois and/or granting such other relief as may be authorized under the Act including but not limited to the imposition of a monetary fine in the maximum amount pursuant to Section 11.E (4) of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for such proposed action are as follows:

1. That at all relevant times, the Respondent was registered with the Secretary of State as a salesperson in the State of Illinois pursuant to Section 8 of the Act.

## Notice of Hearing

2

2. That on May 22, 2009 FINRA entered a Letter Of Acceptance, Waiver And Consent (AWC) submitted by the Respondent regarding File No. 20070094407 Which sanctioned the Respondent as follows:
  - a. three month suspension from association with any FINRA member in any capacity; and
  - b. fined \$5,000.

3. That the AWC listed the following background information:

The Respondent began his association as a general securities representative with a FINRA member in 1994. On July 14, 2003, the Respondent became associated with Piper Jaffray & Co, ("Piper Jaffrey" or the "Firm"), a FINRA member, until his employment termination on January 18, 2005. On April 8, 2005, the Respondent became associated with another FINRA member ("XYZ Firm") where he remains employed to date, and is therefore subject to FINRA's jurisdiction pursuant to Article V, Section 4 of the FINRA By-Laws. The Respondent has no prior disciplinary history in the securities industry.

4. That the AWC found: OVERVIEW

During the course of his employment with his Firm, the Respondent began exploring the idea and the feasibility of starting a hedge fund business focused on aircraft finance securities. Though the Respondent ultimately did not form any business entity or accept any money from investors, he engaged in certain conduct that failed to meet the high standards of commercial honor and just and equitable principles of trade in that he, without the Firm's knowledge or permission: (i) used the Firm's internal information, including some confidential and proprietary materials, for the proposed hedge fund; (ii) contacted potential investors, including some Firm institutional customers, regarding possible interest in investing in the proposed hedge fund; and (iii) used the Firm's name in the proposed hedge fund's business plan in a manner which could be reasonably interpreted that the Firm was aware of and/or approved of the proposed hedge fund.

The Respondent also violated NASD rules by engaging in communications with the public in that he published, circulated and/or distributed public communications concerning his proposed hedge fund that were not approved by the Firm and that: (i) contained statements that were exaggerated and unwarranted, and (ii) contained promises of specific results, and/or projections or predictions of investment performance. The Respondent also engaged in a single email correspondence with the public that was not approved by the Firm and that contained false and/or misleading statements or claims.

**FACTS AND VIOLATIVE CONDUCT**

As a salesperson in Piper Jaffray's fixed income group, the Respondent marketed a variety of fixed income products to Piper Jaffray's customers, including aircraft bonds. Two of the aircraft bonds that the Respondent marketed to Piper Jaffray's customers were the Pegasus Aviation Lease Securitization 2000 ("PALS 2000") and the Delta Airlines Equipment Trust Certificate 1992-C1/C2 ("DAL ETC").

Beginning in as early as November 2003 and continuing through January 2005 (the "Relevant Period"), the Respondent and a business partner named PS ("Partner PS") explored the feasibility of forming a hedge fund focused on aircraft and aviation bonds. During the Relevant Period, the Respondent and Partner PS communicated on a regular basis about the proposed hedge fund.

1. Failure to Observe High Standards of Commercial Honor and Just and Equitable Principles of Trade

NASD Conduct Rule 2110 requires members to observe high standards of commercial honor and just and equitable principles of trade. The Respondent engaged in conduct that was violative of NASD Rule 2110 in the following ways:

a. Unauthorized Use of Firm internal Information, Including Some Proprietary and Confidential Information, For the Proposed Hedge Fund

While employed by his Firm, the Respondent, along with Partner PS, drafted at least two documents relating to their proposed hedge fund: a 23-page business plan (the "Business Plan") and a 21-page Power Point presentation (the "Power Point Presentation").

The Business Plan was entitled, "Aircraft Partners Fund 1: Prepared by Doug Conrod and Partner PS." In the Business Plan, the Respondent detailed the potential opportunity available to investors in the proposed hedge fund by explaining the nuances of the aircraft leasing and distressed debt marketplace. The Business Plan also provided examples of two potential investment opportunities which the proposed hedge fund would invest in as part of its investment thesis, These investments were PALS 2000 and DAL ETC, two distressed aircraft bonds which, under the Business Plan of the proposed hedge fund, would be purchased at a deflated price in relation to the price of the aircraft and the related lease payments. These two aircraft bonds were securities that the Respondent marketed to customers of the Firm as part of his duties as a salesperson. The specific aircraft bond information utilized in the Business Plan and PowerPoint Presentation was compiled from a variety of sources, including public and historic information, as well as some information which the Firm had designated

## Notice of Hearing

4

as "Internal Use Only- Do Not Copy or Distribute."

During the Relevant Period, the Respondent forwarded at least 24 Firm emails containing materials explicitly labeled as "internal use only" from either his Piper Jaffray email account or an authorized Firm Bloomberg email account to external email addresses. Some emails were forwarded to his own personal email address and an email address belonging to Partner PS, while other emails were forwarded to outside individuals, some of whom worked for institutional customers of the Firm. These Firm emails were not intended by the Firm to be disseminated outside of the Firm and much of the information included in these "internal use only" emails pertained to aircraft bonds and finance.

Also, as a Firm salesperson, the Respondent was authorized to use a Firm proprietary research tool that valued aircraft bonds, pursuant to his signing of a confidentiality agreement that was the Respondent's affirmation that he understood and agreed he was prohibited from emailing, copying or distributing the information he received from the proprietary research tool. In direct violation of this confidentiality agreement, the Respondent forwarded some emails outside of the Firm that contained information obtained from the research tool.

In short, the Respondent did not have permission from the Firm to utilize the Firm's internal information, including some proprietary and confidential information, for the proposed hedge fund. By reason of the foregoing, the Respondent violated NASD Rule 2110.

b. The respondent's Contacts with Potential Investors of the Proposed Hedge Fund

During the Relevant Period, the Respondent utilized his Firm's business email account and Bloomberg email account to communicate about the proposed hedge fund with at least nine individuals outside the Firm. Though these nine individuals were family and friends, most of them were also the Respondent's main contact at an institutional customer of the Firm. In addition, the Respondent met with and/or provided the Business Plan and Power Point Presentation to several of these nine individuals.

One of the purposes in communicating with these individuals was to explore raising seed money for the proposed hedge fund. The Respondent also met with individuals at XYZ Firm, a FINRA member and the Respondent's current employer, to discuss whether they would be interested in providing capital for the proposed hedge fund.

The Respondent's communications with potential investors of the proposed hedge fund constituted a violation of NASD Conduct Rule 2110.

c. Use of the Firm Name in the Business Plan for the Proposed Hedge Fund

The Business Plan also had a Biographies section that contained written profiles on the proposed hedge fund's two founders and partners, the Respondent and Partner PS. The Respondent's biography contained a paragraph that referenced his affiliation with his member employer by stating,

Mr. Conrod is currently a Managing Director at Piper Jaffray and Company, the pre-eminent Aircraft Equipment Trust and Aircraft ABS dealer on Wall Street. He joined the firm in July 2003 and currently is one of the firm's top salespeople on the structured product fixed income trading desk. He is also the sales team leader for the newly launched CBO/CDO group. (Emphasis in original)

The Firm's policies and procedures state, "No employee may use the Firm's name in any manner which could be reasonably misinterpreted to indicate a tie-in between the Firm and any outside activity of the employee."

By referring to the Firm in materials for the proposed hedge fund without the Firm's knowledge or permission, the Respondent used the Firm's name in a manner which could be reasonably misinterpreted to indicate that the Firm was aware of and/or approved of the proposed hedge fund, in violation of NASD Conduct Rule 2110.

2. The Respondent's Communications with the Public

According to the General Provisions of NASD Rules, and in particular, the applicability of the rules to employees or associated persons of members, General Provision 0115 states, "These Rules shall apply to all members and persons associated with a member. Persons associated with a member shall have the same duties and obligations as a member under these Rules."

## Notice of Hearing

6

a. Principal Approval

The Respondent's use of the Business Plan and Power Point Presentation violated NASD Rule 2210(b)(1), as they were not approved, prior to use, by a registered principal of the Firm.

b. Risk Disclosure

NASD Rule 2210(d)(1)(A) requires communications with the public to be fair and balanced, and to provide the investor with a sound basis for evaluating the facts regarding the securities products or services being discussed. No material fact may be omitted from a communication if such omission would cause the communication to be misleading. The Respondent violated NASD Rule 2210(d)(1)(A) in that the Business Plan and PowerPoint Presentation failed to include adequate disclosures regarding both the general risks of hedge funds as an investment, and risks specific to the Respondent's proposed hedge fund. Absent such disclosures, the proposed hedge fund's materials failed to provide a fair and balanced presentation to investors.

c. Exaggerated or Unwarranted Statements or Claims

NASD Rule 2210(d)(1)(B) prohibits false, exaggerated, unwarranted or misleading statements or claims. No member may publish, circulate or distribute any public communication that the member knows or has reason to know contains any untrue statement of a material fact or is otherwise false or misleading. The following are examples of statements or claims in the Business Plan and/or Power Point Presentation that are exaggerated or unwarranted, in violation of NASD Rule 2210(d)(1)(B):

"Secured Aircraft Bonds Offer Compelling Rates of Return - There exists a tremendous opportunity for investors to purchase on a secondary basis, senior secured positions, in structured cash flow instruments that will return high stable yields for considerable periods of time. In an absolute basis and relative to other asset classes, aircraft equipment trust and aircraft equipment trust and aircraft ABS transactions offer compelling rates of return" - page 6 of Business Plan;

a. "Seek to purchase assets or cash flows at a discount to their intrinsic or net asset value providing the investor a margin of safety and generating an acceptable return assuming no growth" - page 6 of Business Plan;

Notice of Hearing

7

- b. "Leverage in structured ABS aircraft bond cash flows-Small increase in performance can create significant price appreciation in market" - page 16 of Business Plan;
- c. "Long lived aircraft assets will generate compelling returns for a considerable period of time" - page 16 of Business Plan;
- d. "Mr. Conrod is currently a Managing Director at Piper Jaffray and Company, the pre-eminent Aircraft Equipment Trust and Aircraft ABS dealer on Wall Street" - page 17 of Business Plan;
- e. "Downside - Minimal - Buying at discount to NAV - Excellent collateral coverage" - page 2 of Power Point Presentation;
- f. "By assuming what we believe to be relatively small bankruptcy and repossession risk, we have the potential to earn 20% return"- page 20 of Power Point Presentation;
- g. "Opportunity to generate double digit returns with minimal risk" - page 22 of Power Point Presentation;
- h. "Unique to our management team is the expertise and ability to take possession and manage the physical aircraft asset. Very few investment funds have this skill set" - page 22 of Power Point Presentation;
- i. "Leverage in structure aircraft bond cash flows-Small increase in performance can create significant price appreciation in market" - page 22 of Power Point Presentation; and
- j. "Long lived assets can generate compelling returns for a considerable period of time" - page 22 of Power Point Presentation. Promises, Projections or Predictions

NASD Rule 2210(d)(2)(D) prohibits the promise of specific results and/or predictions or projections of investment performance. The following are examples of statements or claims in the Business Plan and/or Power Point Presentation that violated NASD Rule 2210(d)(2)(D):

## Notice of Hearing

8

- k. "Earn un-levered 9-15% annual returns utilizing very low leverage, I-turn generating potential returns of close to 20% in the base case" - page 1 of Business Plan;
- l. "We will target base case un-levered IRR's [Internal Rate of Return) of 13+%, for ETC and EETC structures, and 9%-12% for ABS structures" page 6 of Business Plan;
- m. "This scenario produces 9+% IRR's for both the A1 and A2 classes in an unlevered environment held to maturity"- page 9 of Business Plan;
- n. The base case scenarios for A1 and A2 which disclose "IRR 9.26% - Base Case - Held to maturity" and "1RR 9.50% - Base Case - Held to maturity" -bottom of page 13 of Business Plan;
- o. "See above analysis conservatively indicating 9% return" - page 15 of Business Plan;
- p. "In a conservative case we feel confident we can generate unlevered returns of 9-15% assuming no recovery from current market levels" - page 16 of Business Plan;
- q. "Un-levered 9-12% returns, with very low leverage." page 2 of Power Point Presentation;
- r. "20+% 1RR" - page 14 of Power Point Presentation;
- s. "9.26% IRR" - page 14 of Power Point Presentation;
- t. "9.50% IRR" - page 15 of Power Point Presentation;
- u. "Purchase A2 Class in 4-1 ration to A 1.Blended un-levered current Yield of 9.45% IRR to maturity - Base case assumption" - page 17 of Power Point Presentation; and
- v. "Cash on cash annual yield of 11.4% - Base case assumption" - page 17 of Power Point Presentation.



e. Misleading Email

On December 7, 2004, the Respondent sent an email from his Firm's email account to two outside email addresses (the "December 7, 2004 email"). One of the recipients was a customer named PS ("Customer PS"), the Respondent's former professor at Columbia Business School and the founder of the ABC Fund, a hedge fund that was a customer of Piper Jaffray at the time. The other recipient of the Respondent's email was Partner PS.

In this December 7, 2004 email to Customer PS, the Respondent stated that he and Partner PS had been trying to raise funds for the proposed hedge fund since June 2004. The Respondent explained that the XYZ Firm was willing to house the proposed hedge fund and that the Respondent and Partner PS already had commitments for a few million dollars. The December 7, 2004 email continued by stating that the Respondent and Partner PS were looking to raise more money to "get the fund up and running" and asked Customer PS for guidance and suggestions for to assist them in reaching the Columbia Business School network.

Several of the Respondent's statements in this December 7, 2004 email were not true, including that the XYZ Firm was willing to house the proposed hedge fund and that the Respondent had investor commitments of a few million dollars.

Consequently, the content of the email was false and misleading, in violation of NASD Rule 2210(d)(I)(B) and the content standards of NASD Rule 2211(d)(1).

**VIOLATIONS**

- 1) The Respondent violated NASD Conduct Rule 2110 by failing to observe high standards of commercial honor and just and equitable principles of trade in that he, without the Firm's knowledge or permission:
  - a. used the Firm's internal information, including some confidential and proprietary information, for a proposed hedge fund;
  - b. had contacts with potential investors, including some firm institutional customers, regarding investing in the proposed hedge fund; and

## Notice of Hearing

10

- c. used the Firm's name by improperly referencing the Firm in the proposed hedge fund's business plan that he created in a manner which could be reasonably misinterpreted to indicate that the Firm was aware of and/or approved of the proposed hedge fund.
  - 2) The Respondent violated NASD Conduct Rule 2210(b)(1) in that the materials he created for the proposed hedge fund and/or utilized for communication with the public were not approved, prior to use, by a registered principal of his Firm.
  - 3) The Respondent violated NASD Conduct Rule 2210(d)(1)(A) in that the materials he created for the proposed hedge fund and/or utilized for communication with the public lacked adequate disclosures such that they were not fair and balanced and did not provide a sound basis for evaluating the facts regarding the securities products or services being offered.
  - 4) The Respondent violated NASD Conduct Rule 2210(d)(1)(B) in that the materials he created for the proposed hedge fund and/or utilized for communication with the public contained exaggerated and/or unwarranted statements or claims.
  - 5) The Respondent violated NASD Conduct Rule 2210(d)(2)(D) in that the hedge fund materials he created and utilized for communication with the public contained promises of specific results and/or predictions or projections of investment performance.
  - 6) The Respondent violated NASD Conduct Rule 2211(d)(I) in that the single email correspondence he utilized for communication with the public violated the content standards of NASD Conduct Rule 2210(d)(1) in that it contained false and/or misleading statements or claims.
5. That Section 8.E (1)(j) of the Act provides, inter alia, that the registration of a salesperson may be revoked if the Secretary of State finds that such Salesperson has been suspended by any self-regulatory organization Registered under the Federal 1934 Act or the Federal 1974 Act arising from Any fraudulent or deceptive act or a practice in violation of any rule, regulation or standard duly promulgated by the self-regulatory Organization.
  6. That FINRA is a self-regulatory organization as specified in Section 8.E (1)(j) of the Act.

Notice of Hearing

11

7. That by virtue of the foregoing, the Respondent's registration as a Salesperson in the State of Illinois is subject to revocation pursuant to Section 8.E (1)(j) of the Act.

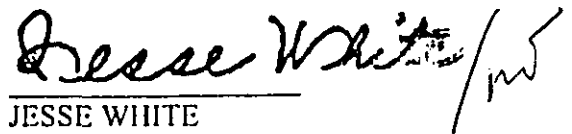
You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 ILL. Adm. Code 130)(the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

A copy of the Rules, promulgated under the Act and pertaining to hearings held by the Office of the Secretary of State, Securities Department, is included with this Notice.

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated: This 4<sup>th</sup> day of November 2009.



JESSE WHITE  
Secretary of State  
State of Illinois

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