

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. ##

20041000253-01

TO: Department of Market Regulation
NASD

RE: **Canaccord Adams Inc.**, Respondent
Broker-Dealer
CRD No. 1020

Pursuant to Rule 9216 of NASD Code of Procedure, Canaccord Adams Inc. (the "firm" or "ADAM") (formerly known as Adams, Harkness & Hill, Inc., and as Adams Harkness, Inc.) 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 ADAM alleging violations based on the same factual findings.

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

ADAM 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:

The firm has been a member of NASD since April 3, 1946 and its registration remains in effect. The firm has no prior relevant disciplinary history.

I.

WAIVER OF PROCEDURAL RIGHTS

ADAM 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 it;
- 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, ADAM 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.

ADAM further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of NASD Rule 9143 or the separation of functions prohibitions of NASD 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

In 20041000253 (formerly MRD200445577), the staff of NASD's Department of Market Regulation ("staff") reviewed ADAM's short interest reporting during the period June 2003 through May 2004.

In 20050000966 (formerly MRD200446501), the staff conducted a Trading and Market Making Surveillance ("TMMS") Examination of the firm. The staff reviewed the following items:¹

- 35 customer sale transactions and 15 proprietary sale transactions, reviewed for compliance with NASD Rules 3110, 3350, 3370, and 6130;
- 19 limit orders, reviewed for compliance with NASD Rule 2110 and IM-2110-2;
- 476 trades reported to the Automated Confirmation Transaction Service ("ACT") (now known as the Nasdaq Market Center), reviewed for compliance with NASD Rule 6130;
- 50 orders handled by the firm during the month of April 2004, reviewed for compliance with SEC Rule 11Ac1-5 (now known as SEC Rule 605 of Regulation NMS);
- Report on routing of customer orders for quarter ending March 2004, reviewed for compliance with SEC Rule 11Ac1-6 (now known as SEC Rule 606 of Regulation NMS);
- Written supervisory procedures, including procedures related to the regular and rigorous assessment of the quality of executions received on orders sent to other members, ATSS, or exchanges, in effect March 2004, reviewed for compliance with NASD Rule 3010;
- Registration of trading area personnel, reviewed for compliance with NASD Rules 1021 and 1031;
- 50 orders received by the firm that were eligible for Order Audit Trail System ("OATS") reporting, reviewed for compliance with NASD Rule 6955;
- Firm's overall books and records, reviewed for compliance with NASD Rule 3110 and SEC Rules 17a-3 and 17a-4;
- Three transactions reviewed for compliance with NASD Rules 2320 and 3110; and
- 25 orders for trade dates May 10, 2004, May 12, 2004 and May 13, 2004 to determine whether the firm accrued soft dollar credits within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as well as compliance with NASD Rule 6130 and SEC Rule 10b-10.

In 20050033120, the staff reviewed trading information received through the submission of electronic blue sheets in response to NASD requests for such information during the period January 1, 2005 through August 31, 2005.

¹ Unless otherwise noted, all items reviewed are from trade dates May 19 and 20, 2004.

- A. ADAM 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:

20041000253 – Short Interest Reporting

1. During the period June 2003 through May 2004, ADAM submitted to NASD, Inc. monthly short interest position reports. These reports included 236 short interest positions totaling 1,101,900 shares, when the actual short interest was 244 short interest positions totaling 1,153,700 shares.
2. The conduct described in paragraph one constitutes separate and distinct violations of NASD Conduct Rule 3360.
3. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD, concerning short interest reporting. Specifically, the firm's supervisory system did not include written supervisory procedures providing for reviews for compliance with NASD Conduct Rule 3360 that included: (1) a statement of the supervisory step(s) to be taken by the identified person(s); (2) a statement as to how often such person(s) should take such step(s); and (3) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented.
4. The conduct described in paragraph three constitutes a violation of NASD Conduct Rules 2110 and 3010.

20050000966 – 2004 TMMS Examination

5. ADAM, on 21 occasions, erroneously provided written notification disclosing to its customer that the transaction was executed at an average price.
6. ADAM, on 18 occasions when it acted as principal for its own account, failed to provide written notification disclosing to its customer that it was a market maker in each such security.
7. ADAM failed on three occasions to provide written notification disclosing to its customer its correct capacity in the transaction.
8. The conduct described in paragraphs five through seven constitutes separate and distinct violations of SEC Rule 10b-10.
9. For the month of April 2004, ADAM made available a report on the covered orders in national market system securities that it received for execution from any person. This report included incorrect information as to order classification and order execution.

10. The conduct described in paragraph nine constitutes separate and distinct violations of SEC Rule 605.

20050033120 – Blue Sheet Data Integrity

11. During the period January 1, 2005 through August 31, 2005, ADAM failed to submit accurate trading information through the submission of electronic blue sheets in response to one or more requests for such information by NASD. The inaccuracies were systemic in nature and consisted of the reporting of short sales as long sales.
12. The conduct described in paragraph 11 constitutes separate and distinct violations of NASD Conduct Rule 2110 and NASD Procedural Rules 8211 and 8213.
13. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities law and regulations, and the Rules of NASD, concerning the submission of electronic blue sheet data, as required by NASD Procedural Rules 8211 and 8213. Specifically, the firm's supervisory system did not include written supervisory procedures providing for reviews for compliance with NASD Procedural Rules 8211 and 8213 that included: (1) the identification of the person(s) responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented.
14. The conduct described in paragraph 13 constitutes a violation of NASD Conduct Rules 2110 and 3010.

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

A censure and a fine of \$85,000 (consisting of \$15,000 for inaccurate short interest reporting and \$5,000 for supervision in 20041000253; \$5,000 for SEC Rule 10b-10 and \$10,000 for SEC Rule 605 in 20050000966; and \$35,000 for inaccurate blue sheets and \$15,000 for supervision in 20050033120).

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

III.

OTHER MATTERS

- A. ADAM 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. ADAM 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. ADAM 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 proposes to pay any fine imposed.
- C. ADAM specifically and voluntarily waives any right to claim that ADAM is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

ADAM certifies that it has read and understands 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 ADAM to submit it.

Date: 1/25/07

Canaccord Adams Inc.

By: Kevin J. Dunn
Name: Kevin J. Dunn
Title: President & CEO

Reviewed by:

[Signature]
Counsel for Respondent

Accepted by NASD:

2/20/07
Date

Thomas R. Gira
Thomas R. Gira
Executive Vice President
Department of Market Regulation

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

CANACCORD ADAMS INC.

STATEMENT OF CORRECTIVE ACTION

January 25, 2007

This Statement of Corrective Action is submitted by the Respondent, Canaccord Adams Inc. ("CAI" or the "firm"), in connection with the Acceptance, Waiver and Consent by and between the Department of Market Regulation, NASD, and CAI, Review Nos. 20041000253 (including 20050000966 and 20050033120).

This Statement of Corrective Action is submitted by the Respondent, Canaccord Adams Inc. It does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD, or its staff.

Electronic Blue Sheets. The firm initially became aware of a discrepancy between short sales reported to the Nasdaq Market Center ("NMC") and its electronic blue sheet ("EBS") submissions in response to an NASD inquiry related to a specific security in November 2005. Since June of 2004, the firm has used an independent service provider to generate and submit EBSs in response to regulatory inquiries. This service provider also provides trade clearing and settlement data processing services. Prior to June of 2004, the firm used a different service provider for EBS submissions, which the firm believes reported short sales accurately. Upon receipt of the inquiry, the firm immediately contacted its service provider's compliance department and commenced an inquiry as to what might be causing the discrepancy. After an investigation by the third party service provider, it was discovered on February 1, 2006 that the problem was created by a defective interface between the firm's third party order management system and the third party data processor. The firm was informed that the programming error was corrected by the end of February 2006. The firm also immediately commenced an EBS validation process in response to the inquiry and Notice to Members 05-58 and put in place heightened procedures to review EBS submissions for accuracy, including, in particular a comparison of sales reflected on the EBS to ensure they are accurately reflected as short or long. These procedures were in place as of February 21, 2006.

In accordance with NTM 05-58, the firm has conducted an extensive EBS validation process. This validation process includes a systematic review of EBS submission to ensure that data required to be included is so included. The firm has also instituted periodic compliance department review of EBS submissions to ensure accuracy when compared to the firm's internal trading records.

Short Interest Reporting. The firm initially became aware of an issue regarding its monthly short interest reporting in response to an NASD inquiry in April 4, 2004. The firm immediately investigated the matter, and determined that the issue was the result of human error on the part of two employees. Each employee had been trained by another employee who is no longer with the firm. In response, the firm provided training for its back office employees in the proper short interest reporting requirements and instituted a

review policy whereby the clerk obtains actual short interest data from the firm's service bureau and inputs such data into the NASD Regulation Form Filing. This will then be submitted to a supervisory employee, who will review and approve the submission. Once approved, the information is submitted to NASD. At the time, the firm adopted a written supervisory procedure specifically enumerating the steps to be taken when preparing the Short Interest Report. The firm also put in place heightened surveillance that included a periodic post hoc review by the compliance department to ensure that the Short Interest Report accurately reflects the firm's internal records.

2004 Trading and Market Making Surveillance Examination.

SEC Rule 10b-10. With respect to issues related to reporting average price to customers, the firm determined that the issue was the result of one sales trader incorrectly marking execution tickets. The firm's Head of Sales Trading and its Trading Compliance Officer immediately brought the error to the attention of the sales trader and conducted continuing education sessions on the subject with all sales traders. With respect to the issue related to disclosure that the firm was acting as market maker, the firm determined that this failure was due to carelessness of a sales trader. Again, the firm's Head of Sales Trading and its Trading Compliance Officer immediately brought the error to the attention of the sales trader and conducted continuing education sessions on the subject with all sales traders.

SEC Rule 605. The firm determined that the items noted in the examination were the result of a difficulty on the part of the firm's order management system ("OMS") with the programming related to raw data transfer from the OMS to Transaction Auditing Group ("TAG"). While the OMS accurately reflected the capacities of executions, it appeared that there were incidents in data transfer to TAG in which the raw data did not match the OMS data. The firm immediately notified the OMS vendor, which reprogrammed the raw data transfer to TAG and reported to the firm the issue resolved. The firm also instituted a heightened level of review by the Compliance Department to ensure data transferred to TAG is accurate and complete.