

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
20042000122-01

TO: Market Regulation Department
NASD

RE: Ferris, Baker Watts Incorporated, Respondent
Broker Dealer
CRD Number 285

Pursuant to Rule 9216 of NASD Code of Procedure, Ferris, Baker Watts Incorporated ("FBWA" or "the firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against FBWA alleging violations based on the same factual findings.

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

FBWA 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:

FBWA entered the securities industry on May 15, 1947 as a member of NASD and its registration remains effective. The firm has no prior relevant disciplinary history.

I.

WAIVER OF PROCEDURAL RIGHTS

~~Code of Procedure:~~

- A. To have a Formal Complaint issued specifying the allegations against FBWA;
- 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, FBWA 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.

FBWA further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

II.

ACCEPTANCE AND CONSENT

In connection with 20042000122 (formerly MRD200342231), the staff of the Market Regulation Department of NASD (the "staff") conducted a review of FBWA's compliance with NASD Conduct Rule 2320 during the period April 1, 2003 through June 30, 2003.

- A. FBWA hereby accepts and consents, without admitting or denying the allegations or findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:
1. In nine transactions for or with a customer, FBWA failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions, as reflected on Exhibit A, which is attached hereto and incorporated herein by reference.
 2. The conduct described in paragraph one constitutes separate and distinct violations of NASD Conduct Rules 2110 and 2320.
 3. FBWA failed to report the correct price of the transaction through Nasdaq Market Center in 21 last sale reports of transactions in eligible securities.
 4. The conduct described in paragraph three constitutes separate and distinct violations of NASD Marketplace Rule 6420(c)(3).
 5. FBWA, in 20 of the 21 transactions identified in paragraph three, when it acted as principal for its own account, failed to provide written notification disclosing to its customer the correct reported trade price.
 6. The conduct described in paragraph five above constitutes separate and distinct violations of SEC Rule 10b-10.

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

A censure and fine of \$15,000,¹ consisting of a \$5,000 for the best execution violations; a \$5,000 fine for the trade reporting violations and a \$5,000 fine for the violations of SEC Rule 10b-10.
The sanctions imposed herein shall be effective on a date set by NASD staff.

¹ Restitution was not ordered in this matter as FBWA had previously submitted satisfactory proof of payment of full restitution to the parties involved in the transactions described in Exhibit A in the amount of \$148,50.

III.

OTHER MATTERS

- A. FBWA understands that FBWA may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. FBWA understands that FBWA 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. FBWA agrees to pay any monetary sanctions imposed on FBWA 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 FBWA proposes to pay any fine imposed.
- C. FBWA specifically and voluntarily waives any right to claim that FBWA is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Ferris, Baker Watts Incorporated certifies that Ferris, Baker Watts Incorporated has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce FBWA to submit it.

December 21, 2005
Date

Ferris, Baker Watts Incorporated
Respondent

By: Theodore W. Urban

Name: Theodore W. Urban

Title: Executive Vice President

Reviewed by:

Theodore W. Urban
Counsel for Respondent

Accepted by NASD:

1/26/06
Date

Thomas R. Gira
Thomas R. Gira
Executive Vice President and Deputy
Department of Market Regulation
Signed on behalf of the Director of
ODA, by delegated authority



Ferris, Baker Watts, Incorporated
Member NYSE, SIPC
Investments
100 Light Street
Baltimore, Maryland 21202
(410) 685-2600

2003 AWC Corrective Action Statement:

During a review of compliance with Conduct Rule 2320 for orders that were handled by Ferris, Baker Watts, Inc. ("FBW") during the Second Quarter of 2003, NASD identified 9 transactions that involved violations of Rules 2110 and 2320, and 21 transactions that involved violations of Rule 6420. NASD further noted that 20 of the 21 transactions that were found to be in violation of Rule 6420 also represented violations of SEC Rule 10b-10. FBW believes that the primary cause of the violations noted by NASD is that BRASS, FBW's data service provider, was not consistently, accurately identifying the prevailing National Best Bid Offer ("NBBO") in conjunction with FBW's automatic execution of customer orders involving Listed Securities. In conjunction with the Letter of Acceptance, Waiver and Consent ("AWC") on this matter, FBW is identifying below what the firm believes are appropriate corrective actions regarding the 30 transactions referenced above.

1. In conjunction with FBW's trading manager's independent identification of a potential problem regarding BRASS's apparently inconsistent quotation feed, FBW has maintained periodic communications with BRASS in an attempt to eliminate the problem, and continues to monitor quality of execution prices at the time of execution for trades involving listed securities.
2. FBW has recently directed BRASS to adjust its systemic configuration to activate ACT reporting based on a trade's execution price, instead of the prevailing NBBO Bid or Ask.
3. FBW continues to utilize NASDAQ Trader Report Cards and other independent reports on execution quality, including TAG Overnight Exception reports to monitor execution prices on customer orders.

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

AWC Incident No.	Wells Incident No.	Date	MPID	B/S/X	Volume	SECID	Price	Contra	Report Time	Execution Time	Modifier	Inside Bid or Ask at Execution	Execution Price	Correct Price*	No. of Shares Requiring Restitution	Restitution
1	2	4/2/2003	FBWA	B	200	UBP	12.1		15:42:53	15:42:52		12.31	12.1	12.31	200	\$42.00
2	3	4/2/2003	FBWA	B	2000	WRS	9.15		15:06:08	15:06:05		9.2	9.15	9.2	1000	\$50.00
3	4	4/14/2003	FBWA	B	375	WRS	9.16		11:20:25	11:20:25		9.2	9.16	9.2	375	\$15.00
4	8	5/9/2003	FBWA	B	100	O	36.84		10:38:35	10:38:35		36.86	36.84	36.86	100	\$2.00
5	9	5/12/2003	FBWA	S	800	WRS	10.04		11:19:59	11:19:59		10.03	10.04	10.03	300	\$3.00
		5/12/2003			300	WRS	10.04			11:19:44		10.03	10.04	10.03	300	\$3.00
6	13	5/16/2003	FBWA	B	400	MRR	19.35		13:51:17	13:51:17		19.36	19.35	19.36	400	\$4.00
7	15	5/28/2003	FBWA	B	250	C&S	25.65		11:18:24			25.66	25.65	25.66	250	\$2.50
8	20	6/5/2003	FBWA	B	300	MRR	19.42		11:10:56			19.47	19.42	19.47	300	\$15.00
9	32	6/23/2003	FBWA	B	700	MRR	20.84		13:10:08	13:10:08		20.85	20.84	20.85	700	\$7.00

Unless otherwise noted:

Total Restitution \$143.50

*Denotes second best inside bid or ask at execution.