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FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT

NO. 20050004861-01

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NASD REGULATION, INC.
MARKET REGULATION

TO: Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

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

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

I.

ACCEPTANCE AND CONSENT

- A. The firm hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA 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 FINRA:

BACKGROUND

The firm has been a member of FINRA (formerly NASD) since May 15, 1947 and its registration remains effective. The firm has the following relevant disciplinary history:

- On January 25, 2006, an AWC became final in which the firm was fined \$5,000 for violating NASD Rule 6420 and \$5,000 for violating SEC Rule 10b-10.
- On May 13, 2003, a New York Stock Exchange action became final in which the firm was censured and fined \$100,000 for various rules including SEC Rules 17a-3 and 17a-4.

FACTS

From March 15, 2005 through March 16, 2005, the staff of FINRA's Department of Market Regulation ("the staff") conducted an examination of the firm of varying scope and duration as set forth in Appendix 1. This matter is a result of that examination.

1. The firm incorrectly reported to the Nasdaq National Market Center ("NMC") the second leg of one riskless principal transaction in a designated security because it incorrectly designated the capacity of the transaction as principal. The conduct described in this paragraph constitutes a violation of NASD Rule 4632.
2. The firm incorrectly reported to the NMC the second leg of three riskless principal transactions in eligible securities because it incorrectly designated the capacity of the transactions as principal. The firm also incorrectly reported to the NMC two riskless principal transactions in eligible securities because it incorrectly reported the transactions as riskless principal when only a portion of the transactions was riskless. The firm also incorrectly reported to the NMC one riskless principal transaction in an eligible security because it incorrectly reported the transaction as principal when a portion of the transaction was riskless. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 4632 (formerly NASD Rule 6420).
3. The firm, on one occasion, 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 the security. The firm, on one occasion, failed to provide written notification disclosing to its customer that the transaction was executed at an average price. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.
4. The firm failed to show the correct price on the ledger itemizing 16 purchases or sales of securities. The firm failed to show the terms and conditions on the memorandum of six brokerage orders. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 17a-3 and NASD Rule 3110.
5. For the month of December, 2004, the firm 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 and incomplete SEC Rule 605 report information. In one instance, the firm failed to indicate that a portion of an order was cancelled. In one instance, an order was partially cancelled and the firm failed to include the cancellation quantity in the cancelled shares column of the report. In one instance, a portion of shares in an order was executed at a market center and the firm included the shares in the executed away column of the report. Also, in one of the four orders reviewed, the firm used two different offer quotes at order receipt time which

caused incorrect statistics as to that order for: the average effective spread, at the quote shares, at the quote average time, outside the quote shares, and outside the quote average time. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 605 of Regulation NMS.

6. 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: SEC Rule 602 of Regulation NMS (the "one-percent rule"); NASD Conduct Rule 2320(g) ("the three-quote rule"); the prohibition against anti-intimidation/coordination; transaction reporting; the handling and transaction reporting of sale transactions; and books and records. Specifically, the firm's written supervisory procedures did not reflect the actual procedures that the firm had for: (1) the identification of the person(s) responsible at the firm to ensure compliance with the applicable rules; (2) the step(s) that such person(s) should take to ensure compliance therewith; (3) how often such person(s) should take such step(s); and (4) how enforcement of such written supervisory procedures should be documented at the firm. The conduct described in this paragraph constitutes a violation of NASD Conduct Rules 2110 and 3010.

B. The firm also consents to the imposition of the following sanctions:

A censure, a total fine of \$14,000 (consisting of \$5,000 for the transaction reporting violations, \$1,000 for the SEC Rule 10b-10 violations, \$2,000 for the books and records violations, \$5,000 for the SEC Rule 605 violations and \$1,000 for the supervision violations) and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph six. Within 30 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraph six, and (3) the date the revised procedures were implemented.

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed. The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the firm;
- 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 National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm 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.

The firm 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.

III.

OTHER MATTERS

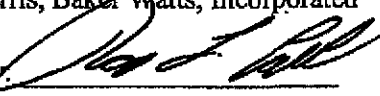
The firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-3; and
 - 4. The firm 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 finding in this AWC or create the impression that the AWC is without factual basis. The firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 FINRA, nor does it reflect the views of FINRA or its staff.

The firm certifies that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

April 8, 2008
Date

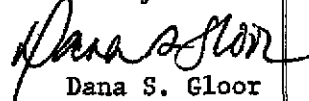
Respondent
Ferris, Baker Watts, Incorporated

By 

Name: Roger L. Calvert

Title: Chief Executive Officer

Reviewed by:


Dana S. Gloor
Attorney Name

Accepted by FINRA:

5/1/08
Date

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


Thomas R. Gira
Executive Vice President
Department of Market Regulation

Ferris, Baker Watts, Incorporated
MRE Examination Review Samples
20050004861

FINRA staff reviewed the following samples during the examination:

- Customer and Proprietary Sales – Thirty-one (31) customer transactions and twenty (20) proprietary transactions for trade dates 1/18/05 and 1/19/05 reviewed for compliance with Reg. SHO Rule 200(g) and Rule 203; NASD Rules 3350 and 6130; SEC Rule 10a-1.
- Limit Orders – Fifty (50) limit orders for trade dates 1/18/05 and 1/19/05 reviewed for compliance with NASD Rule 2110 and IM-2110-2. One (1) of the fifty (50) limit orders was also reviewed for compliance with SEC Rule 11Ac1-4 and NASD Rule 2320.
- Crossing of Customer Market Orders or Marketable Limit Orders with Non-displayed Limit Orders – Two (2) limit orders that were either received or open on trade date 1/18/05 reviewed for compliance with NASD Rule 2320.
- Riskless Principal and Non-Riskless Principal Transaction Reporting – Fifty (50) orders for trade dates 1/18/05 and 1/19/05 reviewed for compliance with NASD Rules 4632 and 6130.
- Adjustment of Open Orders – Two (2) open limit orders for ex-date 1/19/05 reviewed for compliance with NASD Rule 3220.
- Reporting of Trades Executed at a Prior Reference Price – Three (3) transactions for trade dates 1/18/05 and 1/19/05 reviewed for compliance with NASD Rules 2320, 4632 and 6130.
- Disclosure of Order Execution Information – Fifty (50) orders handled by the firm during the month of December 2004 reviewed for compliance with SEC Rule 11Ac1-5.
- Disclosure of Order Routing Information – Report on routing of customer orders for quarter ending December 2004 reviewed for compliance with SEC Rule 11Ac1-6.
- 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 January 2005 reviewed for compliance with NASD Rule 3010.
- Registration of Trading Area Personnel reviewed for compliance with NASD Rules 1021 and 1031.
- OATS Reportable Events – Fifty (50) orders for trade dates 1/18/05 and 1/19/05, which were eligible for 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.
- Execution of Orders in OTCBB and OTC Equity Securities – Ten (10) transactions for trade dates 1/18/05 and 1/19/05 reviewed for compliance with NASD Rules 2320 and 3110.