

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
DEPARTMENT OF MARKET REGULATION
20050004902-01

TO: Department of Market Regulation
NASD

RE: Intercoastal Financial Services Corp., Respondent
Broker/Dealer
CRD Number 45557

Pursuant to Rule 9216 of NASD Code of Procedure, Intercoastal Financial Services Corp. ("IFSC" or "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 IFSC alleging violations based on the same factual findings.

IFSC 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 IFSC; and
3. If accepted:
 - a. this AWC will become part of IFSC's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against the firm;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about IFSC'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. IFSC 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. Nothing in this provision affects IFSC's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

IFSC 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 relevant history are as follows:

IFSC has been a member of NASD since November 1998 and its registration remains in effect. The firm's relevant disciplinary history is as follows:

- On November 15, 2005, an AWC became final in which the firm was censured and fined \$48,000 for violations of NASD Rules 2110, IM-2110-2, 3010, 3110, 4632, 6130, 6541, and 6620, and SEC Rule 17a-3.
- On July 24, 2003, an AWC became final in which the firm was censured and fined \$7,500 for violations of NASD Rules 2110 and 6620.
- On October 3, 2002, an AWC became final in which the firm was fined \$5,000 for a pattern or practice of late trade reporting in violation of NASD Rule 2110.

I.

WAIVER OF PROCEDURAL RIGHTS

IFSC 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 IFSC;
- 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, IFSC 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.

IFSC 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 20050004902, the staff of the Department of Market Regulation of NASD (the "staff") conducted a review of the transactions IFSC reported to the Nasdaq Market Center, formerly the Automated Confirmation Transaction Service ("ACT"), during the period September 1, 2004 through December 31, 2004 ("the review period").

- A. IFSC hereby accepts and consents, without admitting or denying the findings, 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. IFSC failed, within 90 seconds after execution, to transmit through Nasdaq Market Center 216 last sale reports of transactions in OTC Equity securities. These transactions constitute seven percent of the transactions reviewed that IFSC was required to report to Nasdaq Market Center during the review period.
 2. The conduct described in paragraph one constitutes separate and distinct violations of NASD Marketplace Rule 6620(a) and a pattern or practice of late reporting without exceptional circumstances in violation of NASD Conduct Rule 2110.
 3. IFSC failed, within 90 seconds after execution, to transmit through Nasdaq Market Center 159 last sale reports of transactions in OTC Equity securities and failed to designate through Nasdaq Market Center such last sale reports as late.
 4. The conduct described in paragraph three constitutes separate and distinct violations of NASD Marketplace Rule 6620(a).

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

A censure and a fine of \$10,000.

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

III.

OTHER MATTERS

- A. IFSC understands that it may attach a *Corrective Action Statement to this AWC*, which is a statement by the Respondent of demonstrable corrective steps taken to prevent future misconduct. Respondent 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. IFSC 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 have attached the election of payment form showing the method by which it proposes to pay any fine imposed.
- C. IFSC specifically and voluntarily waives any right to claim that IFSC is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.



Intercoastal Financial Services Corp.

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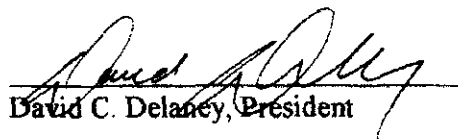
Statement of Corrective Action

June 14, 2006

As a result of the NASD Department of Market Regulation's review, this corrective action statement is hereby submitted by Intercoastal Financial Services Corp. It does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD, or its staff. We have now implemented the following policy changes to correct the issues raised by the Department:

- 1- IFSC will not attempt to execute, in its capacity as a market maker, any principal or agency transactions until it has determined and is confident that its operational facilities are completely functional and have uninterrupted power and communication systems. All customers will be redirected to its backup facility. If that facility is also incapacitated, all customer orders will then be redirected to its clearing agent for execution and proper trade reporting.
- 2- IFSC will immediately reduce the number of markets in which it makes a market. Although approved for more securities, the firm will limit its exposure to trade reporting requirements.
- 3- IFSC will not rely on NASDAQ Trader's Website to report trades to ACT. Due to unreliability of the NASDAQ Trader Website to accept trades reported to its server, trades will only be reported via the NASDAQ Workstation.

We anticipate that the following corrective actions will limit our expose to potential future trade reporting violations.


David C. Delaney, President

MEMBER
NASD • MSRB • SIPC