

RECEIVED
2008 SEP 25 A 4:48
REGISTRATION & DISCLOSURE

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20050032234-01**

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

RE: Ferris, Baker Watts Incorporated, Respondent
Broker/Dealer
CRD No. 285

Pursuant to NASD Rule 9216 of 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 (f/k/a NASD) since May 15, 1947, and its registration remains in effect. The firm has the following relevant disciplinary history:

- On February 15, 2006, FINRA accepted an AWC in which the firm was fined \$5,000 for violations of NASD Marketplace Rule 6130(d) from April 1, 2004 through June 30, 2004.
- On January 25, 2006, FINRA accepted an AWC in which the firm was censured and fined \$15,000 for violations of NASD Marketplace Rule 6420, NASD Conduct Rule 2320, and SEC Rule 10b-10 from April 1, 2003 through June 30, 2003.

SUMMARY

In Review No. 20050032234, the staff conducted a regulatory sweep regarding Best Execution Compliance – Market Order Timeliness for the review period of April 1, 2005 through September 30, 2005.

In Review No. 20060058699, the staff conducted a Trading and Market Making Surveillance Examination (“TMMS Examination”), which included a review of the items set forth on Exhibit No. 1, for the trade dates June 14 and 15, 2006.

In Review No. 20070111237, the staff conducted a TMMS Examination, which included a review of the items set forth on Exhibit No. 2, for the trade dates October 9 and 10, 2007.

In Review No. 20060059215, the staff conducted a regulatory sweep regarding Short Interest Reporting for the review period of April 1, 2006 through June 30, 2006.

In Review No. 20060059600, the staff conducted a regulatory sweep regarding TRACE Reporting Compliance for the review period of January 1, 2006 through March 31, 2006.

VIOLATIVE CONDUCT BY RESPONDENT

In connection with Review No. 20050032234:

1. From April 1, 2005 through September 30, 2005, in 16 transactions for or with a customer, the firm failed to use reasonable diligence to ascertain the best inter-dealer market and 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 3, which is attached hereto and incorporated herein by reference. The conduct described in this paragraph constitutes separate and distinct violations of NASD Conduct Rules 2110 and 2320.

In connection with Review No. 20060058699:

2. On June 14, 2005 and June 15, 2006, the firm, on 12 occasions, accepted a short sale order in an equity security from another person, or effected a short sale in an equity security for its own account, without having reasonable grounds to believe that the security could be borrowed so that it could be delivered on the date delivery is due. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 203(b)(1) of Regulation SHO.

3. On June 14 and June 15, 2006, the firm, on 13 occasions, failed to provide written notification disclosing to its customer the correct mark-up and an accurate price. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.

In connection with Review No. 20070111237:

4. On October 9, 2007 and October 10, 2007, the firm failed to show the correct time of entry on the memorandum of 121 brokerage orders. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 17a-3 and NASD Conduct Rule 3110.
5. On October 9, 2007 and October 10, 2007, the firm failed to report to the NASD/Nasdaq Trade Reporting Facility ("TRF") the correct symbol indicating whether the transaction was a buy, sell, sell short, sell short exempt or cross for 41 transactions in Reportable Securities. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6130(d).
6. On October 9, 2007 and October 10, 2007, the firm transmitted to OATS reports that contained inaccurate, incomplete, or improperly formatted data for 14 transactions. Specifically, the firm reported 14 orders to OATS in non-military time, instead of in the required military time. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).
7. In October 2007, 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 order information for five orders entered on October 9, 2007 or October 10, 2007. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 605 of Regulation NMS.
8. On October 9, 2007 and October 10, 2007, the firm failed to represent customer order interest in the firm's quotation for five orders. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 604 of Regulation NMS.

In connection with Review No. 20060059215:

9. In June 2006, the firm submitted to NASD its short interest position report. This report included a short interest position of 49,030 shares in 22 NASDAQ securities, when the actual short interest in was 61,714 shares in 21 NASDAQ securities. In addition, the firm failed to timely report its short interest positions to NASD in Gladstone Commercial Corporation ("GOOD") for the month of June 2006. The conduct described in this

paragraph constitutes separate and distinct violations of NASD Conduct Rule 3360.

10. From April 1, 2006 through June 30, 2006, 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: (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. The conduct described in this paragraph constitutes violations of NASD Conduct Rules 2110 and 3010.

In connection with Review No. 20060059600:

11. From January 1, 2006 through March 31, 2006, the firm failed to report to TRACE 71 transactions in TRACE-eligible securities executed on a business day during TRACE system hours within 15 minutes of the time of execution. These late trade reports constituted 1.7% of the total number of trade reports in TRACE-eligible securities that the firm reported to TRACE during the review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6230(a).

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

A **censure** and a **fine** of \$48,500 (consisting of \$5,000 for the best execution violations; \$5,000 for the SEC Regulation SHO 203(b)(1) violations; \$1,000 for the customer confirmation violations; \$2,500 for the books and records violations; \$5,000 for the trade reporting violations; \$5,000 for the OATS reporting violations; \$5,000 for the SEC Rule 605 violations; \$5,000 for the SEC Rule 604 violations; \$5,000 for the short interest reporting violations; \$5,000 for the short interest reporting supervisory violations; and \$5,000 for the TRACE reporting violations); and

Restitution by Respondent to the investors listed on Exhibit 3 hereto in the total amount of \$224.80, plus interest at the rate set forth in Section 6621(a) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from the date of the violative conduct until the date this Letter of Acceptance, Waiver and Consent is accepted by the National Adjudicatory Council ("NAC"). A registered principal of the firm shall submit satisfactory proof of payment of the restitution, or of reasonable and documented efforts undertaken to effect restitution, to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509

KEY WEST AVENUE, ROCKVILLE, MD 20850 no later than 120 days after acceptance of this Letter of Acceptance, Waiver and Consent. If for any reason, Respondent cannot locate any customer after reasonable and documented efforts within such period, or such additional period agreed to by the staff, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed-property or abandoned-property fund for the state in which the customer last resided.

The firm agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments 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 the firm is unable to pay, now or at any time hereafter, the monetary sanctions 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 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 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.

III.

OTHER MATTERS

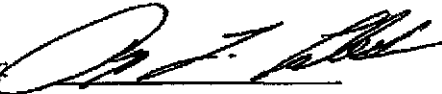
The firm understands that:

- 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, pursuant to FINRA 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 testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. The firm 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 findings 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 a duly authorized officer has read and understood 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.

7/29/08
Date

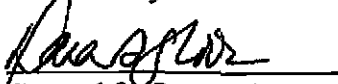
Ferris, Baker Watts Incorporated

By: 

Name: Roger L. Calvert

Title: President & CEO

Reviewed by:


Counsel for Respondent

Accepted by FINRA:

9/23/08
Date


Thomas R. Gira
Executive Vice President
Market Regulation

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

Exhibit No. 1

Ferris, Baker Watts, Inc. ("FBWA") MRE Examination Review Samples 20060058699

NASD staff reviewed the following samples during the examination:

- Order Protection – Fifty-seven (57) limit orders and forty-three (43) market orders for trade dates 6/14/2006 and 6/15/2006 reviewed for compliance with NASD Rules 2110 & 2111 and IM-2110-2.
- Not Held Order – Forty (40) orders for trade dates 6/14/2006 and 6/15/2006, which resulted in the staff reviewing sixty-seven (67) trade reports, reviewed for compliance with NASD Conduct Rules 2320 and NASD Marketplace Rule 6130.
- Trade Reporting – Ninety-two (92) orders for trade dates 6/14/2006 and 6/15/2006, which resulted in the staff reviewing two hundred thirty-one (231) trade reports, including fourteen (14) agency trades, reviewed for compliance with NASD Marketplace Rules 4632 and 6130 and Reg. SHO Rule 200(g).
- Customer and Proprietary Sales – Twenty-five (25) customer sale transactions and forty-two (42) proprietary sale transactions for trade dates 6/14/2006 and 6/15/2006 reviewed for compliance with NASD Rules 3350 and 6130, Reg. SHO Rule 200(g) and Rule 203.
- Customer Confirmations – Sixty-nine (69) customer confirmations for trade dates 6/14/2006 and 6/15/2006 reviewed for compliance with SEC Rule 10b-10.
- Adjustment of Open Orders – Six (6) open limit orders for ex-date 6/15/06 reviewed for compliance with NASD Rule 3220.
- Cancelled Trades – Eight (8) cancelled trades on trade dates 6/14/2006 and 6/15/2006, which resulted in the staff reviewing eight (8) trade reports, reviewed for compliance with NASD Rules 3110, 4632, 4642, 6420 and 6620 and SEC Rule 17a-3.
- Disclosure of Order Execution Information – Fifty-two (52) orders handled by the firm during the month of May 2006 reviewed for compliance with SEC Rule 605.
- Disclosure of Order Routing Information – Report on routing of customer orders for quarter ending June 2006 reviewed for compliance with SEC Rule 606.
- 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 June 2006 reviewed for compliance with NASD Rule 3010.

Exhibit No. 1

- Registration of Trading Area Personnel reviewed for compliance with NASD Rules 1021 and 1031.
- OATS Reportable Events – Fifty (50) OATS eligible orders from trade dates 6/14/2006 and 6/15/2006 reviewed for compliance with NASD Rule 6955.
- Firm's Overall Books and Records, including two hundred fifty-four (254) order tickets, reviewed for compliance with NASD Rule 3110 and SEC Rules 17a-3 and 17a-4.
- Execution of Orders in OTCBB and OTC Equity Securities – Two (2) transactions for trade date 4/20/2006 reviewed for compliance with NASD Rules 2320, 3110 and 6130.

Name of Member: Feitler, Baker Watts, Inc.
 TMMS Exam #: 2007G11232
 Examination Dates: October 9, 2007 - October 10, 2007
 TMMS Examiner(s): Cathy Kostacka
 Date Created: 2/12/2008

FINRA staff reviewed the following samples during the review period:

- Customer and Proprietary Sales - Ten (10) customer sale and three hundred thirteen (313) proprietary sale transactions for trade dates 10/9/07 and 10/10/07 reviewed for compliance with NASD Rules 3110 and 6130, Nasdaq Rule 4755 and SEC Regulation SHO.
- Order Protection - One hundred (100) orders for trade dates 10/9/07 and 10/10/07 reviewed for compliance with NASD Rules 2110, 2111 and III-2110-2.
- Limit Order Display - Thirty (30) limit orders for trade dates 10/9/07 and 10/10/07 reviewed for compliance with SEC Regulation NMS Rule 604.
- Riskless Principal and Non-Riskless Principal Transaction Reporting - One hundred (100) orders for trade dates 10/9/07 and 10/10/07 which resulted in the staff reviewing 323 trade reports, reviewed for compliance with NASD Rules 4532 and 6130.
- Customer Confirmations - Thirteen (13) customer confirmations for trade dates 10/9/07 and 10/10/07 reviewed for compliance with SEC Rule 10b-10.
- Adjustment of Open Orders - Ten (10) open limit orders for ex-dates 10/10/07 and 10/11/07 reviewed for compliance with NASD Rules 3220.
- BO Modifier - Five (5) odd lot executions for trade dates 10/9/07 and 10/10/07 reviewed for compliance with NASD Marketplace Rule 6130.
- Cancelled Trades - Ten (10) cancelled executions on trade date 10/9/07 reviewed for compliance with NASD Rules 3110 and 6130 and SEC Rule 17a-3.
- Institutional Orders - Ten (10) orders received from institutional clients on trade dates 10/9/07 and 10/10/07 reviewed for compliance with NASD Rules 2320, 3110 and 6130.
- Disclosure of Order Execution Information - Five (5) order type/sizes categories for the month of August 2007 and twenty-five (25) orders handled by the firm for trade dates 10/9/07 and 10/10/07 reviewed for compliance with SEC Regulation NMS Rule 605.
- Disclosure of Order Routing Information - Report on routing of customer orders for quarter ending September 2007 reviewed for compliance with SEC Regulation NMS Rule 606.
- 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 October 2007 reviewed for compliance with NASD Rule 3010.
- Registration of Trading Area Personnel, who were employed at the Firm during the staff's review period of 10/9/07 and 10/10/07, reviewed for compliance with NASD Rules 1021 and 1031.
- OATS Reportable Events - Sixty-nine (69) orders received by the Firm on trade dates 10/9/07 and 10/10/07 and for the month of August 2007 that were eligible for OATS reporting, reviewed for compliance with NASD Rule 6955.
- Execution of Orders in OTCBB and OTC Equity Securities - Ten (10) transactions for trade dates 10/9/07 and 10/10/07 reviewed for compliance with NASD Rules 2320 and 3110.
- Firm's Overall Books and Records, for trade dates 10/9/07, 10/10/07 and the month of August 2007, which resulted in the staff reviewing 220 order tickets, reviewed for compliance with NASD Rule 3110 and SEC Rules 17a-3 and 17a-4.

Exhibit 3

[illegible]