

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20060063857-01**

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

RE: William Blair & Company L.L.C., Respondent
Broker-Dealer
CRD No. 1252

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, William Blair & Company L.L.C. (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 became a member of FINRA on March 7, 1944. The firm's registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

The firm understands that its disciplinary history may be a factor that will be considered in deciding whether to accept this AWC. The firm's relevant disciplinary history is as follows. On May 2, 2005, an AWC became final in which the firm was censured and fined \$15,000 for violations of SEC Rule 11Ac1-4 (now SEC Rule 604) and NASD Rules 6955 and 1032(f).

SUMMARY

In connection with 20060063857, the staff of the Market Regulation Department (the "staff") reviewed the firm's compliance with SEC Rule 604 and NASD Rule 6955 during the period March 1 through July 7, 2006.

In connection with 20070089900, the staff conducted the 2007 Trading and Market Making Surveillance ("TMMS") examination wherein the staff reviewed the items set forth on Exhibit 1, which is attached hereto and incorporated herein by reference, primarily for the trade dates April 23 to 24, 2007.

In connection with 20080133281, the staff conducted the 2008 TMMS examination wherein the staff reviewed the items set forth on Exhibit 2, which is attached hereto and incorporated herein by reference, primarily for the trade dates April 15 to 17, 2008.

FACTS AND VIOLATIVE CONDUCT

20060063857

1. During the period March 1 through July 7, 2006, the firm failed to display immediately 27 customer limit orders in Nasdaq securities in its public quotation, when each such order was at a price that would have improved the firm's bid or offer in each such security; or when the order was priced equal to the firm's bid or offer and the national best bid or offer for each such security, and the size of the order represented more than a *de minimis* change in relation to the size associated with the firm's bid or offer in each such security. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 604 of Regulation NMS.
2. During the same period, the firm transmitted to OATS 60 reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, the reports contained seven inaccurate timestamps, three omitted special handling codes, and 50 inaccurate limit prices. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

20070089900

3. During the period April 23 to 24, 2007, the firm failed to report to the NASD/Nasdaq Trade Reporting Facility ("NASD/Nasdaq TRF") the correct symbol indicating whether the transaction was a buy, sell, sell short, or cross for 56 transactions in Reportable Securities. The firm also failed to report to the NASD/Nasdaq TRF the correct time of execution for one transaction in Reportable Securities. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130(d).

4. The firm failed on 69 occasions to provide written notification disclosing to its customer that the transaction was executed at an average price, that it was a market maker in each such security, and/or its correct capacity in the transactions. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.
5. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and regulations, and/or the Rules of NASD. At a minimum, adequate written supervisory procedures addressing quality of markets topics should describe the following:
 - (a) specific identification of the individual(s) responsible for supervision;
 - (b) the supervisory steps and reviews to be taken by the appropriate supervisor;
 - (c) the frequency of such reviews; and
 - (d) how such reviews shall be documented.

The firm's written supervisory procedures failed to provide for one or more of the four above-cited minimum requirements for adequate written supervisory procedures, in the following subject areas: procedures to help ensure a reasonable effort is made to determine supervisory personnel are qualified by virtue of experience or training to execute assigned responsibilities [missing element d]; order handling reviews to ensure compliance with market order protection rule (NASD Rule 2111) [missing all four elements]; best execution procedures for regular and rigorous review of execution information from market centers the firm does not route to [missing all four elements]; sales transactions procedures for proprietary long sales (SEC Rule 200(a) and (g)) [missing all four elements]; and trading halts procedures [missing all four elements]. The conduct described in these paragraphs constitutes a violation of NASD Rules 2110 and 3010.

20080133281

6. During the period April 15 to 17, 2008, the firm made available information on covered orders in national market system securities that it received for execution from any person that included incorrect information as to average realized spread, average effective spread, price improvement statistics, and at-the-quote and outside-the-quote statistics. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 605 of Regulation NMS.
7. The firm failed on four occasions to provide written notification disclosing to its customers its correct capacity in the transactions, on six occasions to disclose the

correct compensation type, and on one occasion to disclose 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.

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

- A censure.
- A fine of \$38,000 (in 20060063857: \$5,000 for SEC Rule 604 and \$5,000 for NASD Rule 6955; in 20070089900: \$5,000 for NASD Rule 6130, \$3,000 for SEC Rule 10b-10, and \$5,000 for NASD Rules 2110 and 3010; in 20080133281: \$10,000 for SEC Rule 605 and \$5,000 for SEC Rule 10b-10).

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 Complaint issued specifying the allegations against the firm;
- B. To be notified of the 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 FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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 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 FINRA Rule 8313; 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 undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf 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.

12-16-09
Date

Respondent
William Blair & Company L.L.C.

By: Kenneth E. Wagner

Name: Kenneth E. Wagner

Title: Compliance Director

Reviewed by:

Attorney Name
Counsel for Respondent

Accepted by FINRA:

2/5/10
Date

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

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

2007 MRE Exam Samples
William Blair & Company LLC ("WBLR")
Exam No. 20070089900

<u>Sample Size:</u>	<u>Sample Description:</u>	<u>Sample Source/Period:</u>
56	Customer and proprietary sales, reviewed for compliance with SEC Rule 200(g) long/short/exempt sale recording requirements.	From trade dates April 23 & 24, 2007.
25	Customer and proprietary short sales, reviewed for compliance with SEC Rule 203(b) security location requirements.	From trade dates April 23 & 24, 2007.
143	Customer and proprietary sales reported to a TRF or OTCRF, for compliance with NASD Rules 6130, 4632 and 6620 sale indicator reporting requirements.	From trade dates April 23 & 24, 2007.
N/A	Customer and proprietary sales reported to the ADF/TRACS, for compliance with NASD Rule 4632A sale indicator reporting requirements.	N/A
0	Short sales in Nasdaq Global Market securities executed otherwise than on an exchange, for compliance with NASD Rule 5100 bid test requirements.	From trade dates April 23 & 24, 2007.
0	Short sales in exchange-listed securities executed otherwise than on an exchange, for compliance with SEC Rule 10a-1 tick test requirements.	From trade dates April 23 & 24, 2007.
11	Customer and proprietary sales entered into the Nasdaq Exchange execution systems, for compliance with Nasdaq Rule 4755 long/short/exempt sale indicator entry requirements.	From trade dates April 23 & 24, 2007.
13	Cancellations of trades reported to a TRF or OTCRF, for compliance with NASD Rules 4632(g), 6420(f), 6620(f) and 6130(f) trade report cancellation requirements.	From trade dates April 23 & 24, 2007.
N/A	Cancellations of trades reported to ADF/TRACS, for compliance with NASD Rule 4632A(l) trade report cancellation requirements.	N/A
44	Limit and market orders executed as principal, for compliance with the order protection and best execution requirements of NASD Rules 2110, IM-2110-2, 2111, 6541 and 2320, and Nasdaq Rules 2110, IM-2110-2, 2111 and 2320	From trade dates April 23 & 24, 2007.
0	Limit orders for NMS stocks in which the member acts as an exchange or OTC market maker, for compliance with the display requirements of SEC Rule 602, 604 and Nasdaq Rule 3390.	From trade dates April 23 & 24, 2007.
10	Market orders with "not held" terms or from institutional customers, for compliance with NASD Rule 2320 and Nasdaq Rule 2320 best execution requirements.	From trade dates April 23 & 24, 2007.

2007 MRE Exam Samples
William Blair & Company LLC ("WBLR")
Exam No. 20070089900

<u>Sample Size:</u>	<u>Sample Description:</u>	<u>Sample Source/Period:</u>
0	Market orders executed as principal, for compliance with NASD Rule 2320 and Nasdaq Rule 2320 best execution requirements.	From trade dates April 23 & 24, 2007.
0	Order memoranda for net trades effected by non-institutional and institutional customers, for compliance with NASD Rule 2441 documentation requirements.	From trade dates April 23 & 24, 2007.
0	Net trading agreements with institutional customers, for compliance with NASD Rule 2441 documentation requirements.	From trade dates April 23 & 24, 2007.
50	Principal and riskless principal trade executions effected otherwise than on an exchange for <u>50</u> limit or market orders, for compliance with NASD Rules 4632, 6420, 6620 and 6130 requirements for TRF and OTCRF reporting.	From trade dates April 23 & 24, 2007.
N/A	Principal and riskless principal trade executions effected otherwise than on an exchange for <u>50</u> limit or market orders, for compliance with NASD Rule 4632A requirements for ADF/TRACS reporting.	N/A
0	NASD Market Surveillance breaks for principal and riskless principal trades, for compliance with NASD Rules 4632, 6420, 6620, 6130 and 4632A requirements for TRF, OTCRF and ADF/TRACS reporting.	From trade dates April 23 & 24, 2007.
4	Trade executions effected otherwise than on an exchange for 4 orders in Nasdaq-listed or exchange listed securities, received from customers with accounts subject to a soft dollar agreement, for compliance with the SEC '34 Act section 28(e) safe harbor which limits the accrual of soft dollar credits for riskless principal transactions to those reporting in compliance with NASD Rules 4632 and 6420.	From trade dates April 23 & 24, 2007.
0	Open limit orders to buy and/or open stop orders to sell securities that traded ex-dividend, for compliance with NASD Rule 3220 and Nasdaq Rule 4761.	For ex-dividend date April 23 & 24, 2007.
3	Trades reported to a TRF or OTCRF with a .PRP modifier, for compliance with NASD Rules 4632, 6420, 6620 and 2320.	From trade dates April 23 & 24, 2007.
N/A	Trades reported to ADF/TRACS with a .PRP modifier, for compliance with NASD Rule 4632A.	N/A
25	Orders for NMS stocks in which the firm acts as a market center, for compliance with SEC Rule 605 order classification requirements.	From trade dates April 23 & 24, 2007.

2007 MRE Exam Samples
William Blair & Company LLC ("WBLR")
Exam No. 20070089900

<u>Sample Size:</u>	<u>Sample Description:</u>	<u>Sample Source/Period:</u>
7	Datasets published on the monthly order execution report, for compliance with SEC Rule 605 requirement to publish accurate data. (A "dataset" is all required statistical data for a single order category, with each category representing a single unique combination of a security, order type and order size, as described in Rule 605.)	from the monthly report for March 2007.
N/A	Quarterly order routing report, for compliance with SEC Rule 606 requirements.	from the quarterly report ending March 2007.
9	Customer orders in OTC equity securities, for compliance with NASD Rules 2320(g) and 3110(b) requirements to ascertain and document the best interdealer market for transactions in such securities.	From trade dates April 23 & 24, 2007.
50	Orders in securities required to be submitted to OATS, for compliance with NASD Rules 6954 and 6955, and Nasdaq Rules 6954 and 6955 requirement to submit OATS information.	From trade dates April 23 & 24, 2007.
N/A	ADF orders and/or quotes which were accessed by others, for compliance with NASD Rule 4300A requirements to submit Order and Order Response reports.	N/A
228	Order/Trade records prepared and maintained in connection with the above samples, for general compliance with requirements of NASD Rule 3110 and SEC Rules 17a-3 and 17a-4.	From various trades in March 2007 and trade dates April 23 & 24, 2007.
1285	Trades reported to a TRF, OTCRF or ADF/TRACS in connection with the above samples, for general compliance with requirements of NASD Trade Reporting and ADF rules.	From various trades in March 2007 and trade dates April 23 & 24, 2007.
127	Customer confirmations prepared and maintained in connection with the above samples, for compliance with SEC Rule 10b-10 disclosure requirements.	From trade dates April 23 & 24, 2007.
13	CRD registration records for persons conducting and/or supervising the member's trading and market making activities, for compliance with NASD Rule Series 1020, 1030 and 1040, and Nasdaq Rule Series 1020, 1030 and 1040.	List of trading personnel and supervisory personnel for April 2007.

2007 MRE Exam Samples
William Blair & Company LLC ("WBLR")
Exam No. 20070089900

<u>Sample Size:</u>	<u>Sample Description:</u>	<u>Sample Source/Period:</u>
All, as provided by the member	The member's supervisory system, written supervisory procedures ("WSPs") and documents evidencing the implementation of the WSPs, for compliance with NASD Rule 3010 requirements to establish an implement a system that is reasonably designed to prevent and detect violations of applicable securities rules.	WSPs provided by the member for April 2007, and documentation of supervisory reviews conducted for April 2007.
All, as provided by the member	The member's "Regular & Rigorous" review procedures (for assessing the execution quality of orders sent to other trading centers and/or internalized, for compliance with NASD Rules 2320 and 3010.	Procedures provided by the member as those in effect during April 2007.
N/A	Trades reported by the ATS/BCN to a TRF, OTCRF or ADF/TRACS in connection with the above samples, for compliance with requirements of NASD Rules 6130(c)(5) and/or 6130A(b)(5).	N/A
0	Trading halts declared during the on-site portion of the examination, for which NASD staff observed the operation of the ATS.	June 11-14, 2007

2008 MRE Exam Samples
William Blair & Co. LLC. ("WBLR")
Exam No.: 20080133281

<u>Sample Size:</u>	<u>Sample Description:</u>	<u>Sample Source/Period:</u>
55	Customer and proprietary sales, reviewed for compliance with SEC Rule 200(g) long/short/exempt sale recording requirements.	From trade dates April 15 and 16, 2008.
20	Customer and proprietary short sales, reviewed for compliance with SEC Rule 203(b) security location requirements.	From trade dates April 15 and 16, 2008.
31	Customer and proprietary sales reported to a TRF or OTCRF, for compliance with NASD Rules 6130, 4632 and 6620 sale indicator reporting requirements.	From trade dates April 15 and 16, 2008.
44	Customer and proprietary sales entered into the Nasdaq Exchange execution systems, for compliance with Nasdaq Rule 4755 long/short/exempt sale indicator entry requirements.	From trade dates April 15 and 16, 2008.
22	Odd lot transactions reported to a TRF or OTCRF, for compliance with NASD Rule 6620 and Nasdaq Rule 4632 odd lot trade reporting requirements.	From trade dates April 15 and 16, 2008.
10	Cancellations of trades reported to a TRF or OTCRF, for compliance with NASD Rules 4632(g), 6420(f), 6620(f) and 6130(f) trade report cancellation requirements.	From trade dates April 15 and 16, 2008.
5	Limit and market orders executed as principal, for compliance with the order protection and best execution requirements of NASD Rules 2110, IM-2110-2, 2111, 6541 and 2320, and Nasdaq Rules 2110, IM-2110-2, 2111 and 2320	From trade dates April 15 and 16, 2008.
34	Principal and riskless principal trade executions effected otherwise than on an exchange for 12 limit or market orders, for compliance with NASD Rules 4632, 6420, 6620 and 6130 requirements for TRF and OTCRF reporting.	From trade dates April 15 and 16, 2008.
151	Trade executions effected otherwise than on an exchange for 2 orders in Nasdaq-listed or exchange listed securities, received from customers with accounts subject to a soft dollar agreement, for compliance with the SEC '34 Act section 28(e) safe harbor which limits the accrual of soft dollar credits for riskless principal transactions to those reporting in compliance with NASD Rules 4632 and 6420.	From trade dates April 1 and 17, 2008.
3	Open limit order to buy and/or open stop orders to sell securities that traded ex-dividend, for compliance with NASD Rule 3220 and Nasdaq Rule 4761.	For ex-dividend dates April 16 and 17, 2008.

2008 MRE Exam Samples
William Blair & Co. LLC. ("WBLR")
Exam No.: 20080133281

<u>Sample Size:</u>	<u>Sample Description:</u>	<u>Sample Source/Period:</u>
25	Orders for NMS stocks in which the firm acts as a market center, for compliance with SEC Rule 605 order classification requirements.	From trade dates April 15 and 16, 2008.
7	Datasets published for on the monthly order execution report, for compliance with SEC Rule 605 requirement to publish accurate data. (A "dataset" is all required statistical data for a single order category, with each category representing a single unique combination of a security, order type and order size, as described in Rule 605.)	Monthly report published for March 2008.
1	Quarterly order routing report, for compliance with SEC Rule 606 requirements.	Report published for the 1st quarter 2008.
9	Customer orders in OTC equity securities, for compliance with NASD Rules 2320(g) and 3110(b) requirements to ascertain and document the best interdealer market for transactions in such securities.	From trade dates April 15 and 16, 2008.
50	Orders in securities required to be submitted to OATS, for compliance with NASD Rules 6954 and 6955, and Nasdaq Rules 6954 and 6955 requirement to submit OATS information.	From trade dates April 15 and 16, 2008.
166	Order/Trade records prepared and maintained in connection with the above samples, for general compliance with requirements of NASD Rule 3110 and SEC Rules 17a-3 and 17a-4.	From trade dates April 15 and 16, 2008.
684	Trades reported to a TRF, OTCRF or ADF/TRACS in connection with the above samples, for general compliance with requirements of NASD Trade Reporting and ADF rules.	From trade dates April 15 and 16, 2008.
32	Customer confirmations prepared and maintained in connection with the above samples, for compliance with SEC Rule 10b-10 disclosure requirements.	From trade dates April 15 and 16, 2008.
11	CRD registration records for persons conducting and/or supervising the member's trading and market making activities, for compliance with NASD Rule Series 1020, 1030 and 1040, and Nasdaq Rule Series 1020, 1030 and 1040.	List of trading and supervisory personnel for April 15 and 16, 2008.
All, as provided by the member	The member's supervisory system, written supervisory procedures ("WSPs") and documents evidencing the implementation of the WSPs, for compliance with NASD Rule 3010 requirements to establish an implement a system that is reasonably designed to prevent and detect violations of applicable securities rules.	WSPs provided by the member as those in effect during April 2008, and documentation of supervisory reviews conducted for April 2008.

2008 MRE Exam Samples
William Blair & Co. LLC. ("WBLR")
Exam No.: 20080133281

Sample
Size:
N/A

Sample Description:

The member's "Regular & Rigorous" review procedures (for assessing the execution quality of orders sent to other trading centers and/or internalized, for compliance with NASD Rules 2320 and 3010.

Sample Source/Period:

Procedures provided by the member as those in effect during April 2008.