

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 59372 / February 10, 2009

INVESTMENT ADVISERS ACT OF 1940
Release No. 2837 / February 10, 2009

ADMINISTRATIVE PROCEEDING
File No. 3-13364

In the Matter of

**FERRIS, BAKER WATTS,
INC.**

Respondent.

**CORRECTED ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS, PURSUANT TO
SECTIONS 15(b) AND 21C OF THE
SECURITIES EXCHANGE ACT OF 1934
AND SECTION 203(e) OF THE
INVESTMENT ADVISERS ACT OF 1940,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Section 203(e) of the Investment Advisers Act of 1940 (“Advisers Act”) against Ferris, Baker Watts, Inc. (“Respondent” or “Ferris”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21C of the Securities and Exchange Act of 1934 and Section 203(e) of the Investment Advisers Act of 1940,

Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

Summary

1. These proceedings arise from supervisory failures at Ferris. Specifically, a registered representative associated with Ferris named Stephen Glantz (“Glantz”), one of Glantz’s customers, and a registered representative at another brokerage firm, all participated in a scheme to manipulate the market for the stock of Innotrac Corporation (“Innotrac”), a thinly traded NASDAQ National Market security in which Ferris made a market. Glantz also engaged in a pattern of unauthorized and unsuitable trading in the accounts of several of his customers. Glantz’s fraud began as early as August 2002 and continued throughout the period from January 2003 through November 2005, when Glantz was employed as a registered representative of Ferris. Ferris failed to design reasonable systems to implement its written supervisory policies and procedures. Ferris’ supervisory failures were in addition to supervisory failures of certain members of the firm’s senior management.

Respondent

2. Ferris is a Delaware corporation headquartered in Washington, D.C. Ferris is both a registered broker-dealer and a registered investment adviser. Ferris has over 600 employees, including over 250 registered representatives working in over forty branch offices in eight states and the District of Columbia.

Other Relevant Entities

3. Glantz, age 55, was formerly a resident of Chagrin Falls, Ohio. He was a registered representative associated with various broker-dealers from 1997 through 2005. During the period January 2003 through November 2005, Glantz was associated with Ferris. On September 4, 2007, Glantz pled guilty to one count of securities fraud and one count of making false statements to law enforcement officials. On December 14, 2007, Glantz was sentenced to 33 months in prison and ordered to pay \$110,000 in restitution.

4. IPOF Fund (“IPOF”) is an Ohio limited partnership, not registered with the Commission in any capacity. IPOF was formed by David A. Dadante (“Dadante”) in 1999. Dadante operated IPOF as an investment company and solicited funds from investors purportedly to purchase stock in initial public offerings. Dadante caused IPOF to raise \$50 million from at least 100 investors in unregistered securities offerings and used some of the proceeds to fund his

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

lavish lifestyle and to make Ponzi scheme-type payments. Dadante deposited the remaining investor funds into brokerage accounts that he controlled in the names of IPOF and other entities at several broker-dealers, including Ferris. Glantz served as the registered representative for the Ferris accounts controlled by Dadante. On April 20, 2007 IPOF was permanently enjoined from violating Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933 (“Securities Act”), Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Section 7(a) of the Investment Company Act of 1940 in SEC v. David A. Dadante et. al., Case No. 1:06-cv-0938 (N.D. Ohio).

5. Dadante, age 54, was formerly a resident of Gates Mills, Ohio. Dadante was the founder and general partner of IPOF. He was not registered with the Commission in any capacity. On August 6, 2007, Dadante pled guilty to two counts of securities fraud. On November 1, 2007, Dadante was permanently enjoined from violating Sections 5(a), 5(c), and 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 206(1) and 206(2) of the Advisers Act in SEC v. David A. Dadante et. al., Case No. 1:06-cv-0938 (N.D. Ohio). On November 29, 2007, the Commission barred Dadante from association with any investment adviser. On December 14, 2007, Dadante was sentenced to 156 months in prison and ordered to pay over \$28 million in restitution.

6. Innotrac is a Georgia corporation with its principal place of business in Duluth, Georgia. Its common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and is traded under the symbol “INOC” on NASDAQ. Innotrac provides order processing, order fulfillment, and call center services to large corporations that outsource these functions.

Background

7. From at least August 2002 through November 2005, Glantz, Dadante, and a registered representative at another brokerage firm, all participated in a scheme to manipulate the market for the stock of Innotrac. All three pled guilty to violations of Section 10(b) of the Exchange Act and in their plea agreements, they all admitted that they artificially inflated and maintained the price for Innotrac stock. Glantz also admitted in his plea agreement that he engaged in unauthorized and unsuitable trading in his customers’ accounts. During the period from August 2002 through November 2005, Dadante used IPOF to acquire more than 30% of the outstanding common stock of Innotrac, and through IPOF and other accounts controlled by him, controlled on average approximately 35% of the public float for Innotrac and typically accounted for between 35% and 50% of the approximate 11,000 share average daily trading volume in Innotrac. Dadante acquired a substantial portion of his Innotrac holdings during the period January 2003 through February 2004 in the IPOF account at Ferris for which Glantz was the registered representative. During the scheme, Glantz purchased Innotrac stock for certain of his other customers at Ferris, and, through their accounts, controlled approximately an additional 25% of Innotrac’s public float. Acting in concert, Glantz, Dadante, and the other registered representative employed a variety of manipulative trading practices, including marking the closing price for Innotrac stock, engaging in matched and wash trades, and attempting to artificially create downbids to suppress short selling of Innotrac. To perpetrate the manipulative scheme, and to generate income for himself, Glantz also engaged in unauthorized and unsuitable trading in Innotrac and certain other securities in the accounts of customers other than IPOF.

Ferris' Failure Reasonably to Supervise Glantz

8. Ferris Senior Executives B and C recruited and hired Glantz, and Ferris Senior Executive A approved his hire. These Senior Executives all had the requisite degree of responsibility, ability or authority at Ferris to affect the conduct of Glantz.

9. When Glantz was hired, Senior Executives A, B, and C knew that Glantz had ten customer complaints on his Form U-4. Several employees of the firm's Beachwood office had also warned them that Glantz had a questionable reputation in the industry.

10. Despite Glantz's history, Senior Executives A, B, and C permitted Glantz to work under a special arrangement which allowed him greater freedom of action than other registered representatives at Ferris. Glantz, a retail broker, was permitted to manage both retail and institutional accounts. Senior Executives B and C permitted Glantz, a retail broker assigned to Ferris' Beachwood, Ohio branch office, to work at Ferris' Institutional Trading Desk in Baltimore several days a week. The special arrangement under which Glantz was permitted to work was extremely unusual at Ferris. Glantz took advantage of that special arrangement to evade Ferris' supervisory procedures.

11. Glantz began working for Ferris on January 2, 2003, and problems with his conduct arose very shortly after he started.

12. In or about April 2003, a Ferris compliance officer initiated a review of the trading in the accounts for which Glantz was the registered representative and discovered that IPOF was accumulating a large position in Innotrac by making purchases in small lots at incrementally higher prices throughout the trading day. In April 2003, this compliance officer discussed her concerns with Ferris' Compliance Director. The Compliance Director, in turn, told Senior Executive A that she and the compliance officer believed Dadante was manipulating the price of Innotrac. In April and May 2003, this compliance officer also discovered that several other Glantz customer accounts were accumulating large positions in Innotrac. She could not think of any legitimate reason why so many of Glantz's accounts had similar trading patterns, especially because Glantz had marked the majority of the trades as unsolicited. This compliance officer then raised these concerns with the Senior Executive A.

13. On May 23, 2003, this same compliance officer sent a memorandum (the "May 23 Memo") to certain Senior Executives, including Senior Executives A and C. The May 23 Memo reported, among other things, that a number of Glantz customer accounts held large positions in Innotrac, that Ferris customers owned approximately 40% of the total float and 19% of the outstanding shares of Innotrac, and that IPOF owned approximately 31% of the total float and 15% of the outstanding shares. This memorandum warned that there might be manipulative and unsuitable trading in Innotrac and that Glantz was not being properly supervised. This memorandum stated that "[w]hile the price of [Innotrac] has been in an up-trend, I believe this is largely due to the IPOF's accumulation of the shares in small lots on almost a daily basis driving the price higher." The May 23 Memo also noted that Glantz was accumulating Innotrac shares in a similar manner in some of his other customer accounts, that IPOF was a "control person" of

Innotrac but had not made the necessary filings with the Commission, and that the IPOF account had a margin debit of \$9.381 million. The memorandum further reported that the trading in the IPOF account was not consistent with its investment objective of “growth and income.” The May 23 Memo also contained a chart showing a high concentration of Innotrac stock and significant margin debts in other Glantz accounts, the majority of which were individual accounts or profit sharing plans whose investment objectives were reported as “growth and income.” The May 23 Memo further stated that “without question, there is and has been a breakdown of supervisory responsibilities and who shares or owns supervisory responsibilities over the activity in the account and Mr. Glantz.”

14. Ferris’ Credit Committee responded to the size of IPOF’s margin debt by raising the margin requirements for the account. Within approximately a week or two, Ferris’ Compliance Director, the author of the May 23 Memo, and Senior Executive A had a conference call with Senior Executives B and C to discuss the May 23 Memo. Senior Executives B and C failed to take any action to address the issues raised in the May 23 Memo as a result of the conversation. Senior Executive A did not follow-up with Senior Executive B or C to determine whether they were taking steps to address Glantz’s conduct.

15. In late May 2003, the Compliance Director informed Senior Executive A that Ferris’ senior institutional trader believed that Dadante and IPOF were manipulating the market for Innotrac by buying in small lots in order to simulate the appearance of demand for the stock and drive up the price. A few days later Senior Executive A met with the senior institutional trader, and the senior institutional trader told Senior Executive A that he believed that Dadante and IPOF were manipulating the market for Innotrac’s stock. On June 5, 2003, the compliance officer who authored the May 23 Memo sent Senior Executive A another memorandum reiterating her concerns about Glantz’s supervision and concluded this memorandum by stating that “I strongly ask that you consider placing Mr. Glantz under special supervision.” Senior Executive A disregarded this recommendation, notwithstanding that Ferris’ written supervisory procedures called for a registered representative to be placed under special supervision when conduct by that registered representative raised concerns about his or her business practices or adherence to rules.

16. On June 9, 2003, Senior Executive A met with Glantz in Beachwood and told Glantz that IPOF would be restricted from buying Innotrac until it complied with the filing requirements of Section 13(d) of the Exchange Act. He, however, failed reasonably to address Glantz’s lack of supervision or the other issues regarding Glantz’s handling of the trading activity in his customers’ accounts. Senior Executive A did restrict IPOF from purchasing Innotrac until IPOF made its Schedule 13D filing on June 25, 2003, after which the restriction was lifted. Dadante and Glantz then continued and escalated their market manipulation scheme.

17. In July and August 2003, Glantz and Dadante implemented a strategy to preclude short selling in Innotrac. At that time, the NASD’s (n/k/a FINRA) bid test imposed restrictions on short selling on a downbid. Dadante acted to take advantage of this prohibition by placing two limit orders to buy Innotrac shares, one at a price incrementally higher than the other, without any intention to honor the higher bid. He would then promptly cancel the higher bid, in an attempt to create a downbid and thereby prevent short selling.

18. On July 29, 2003, Ferris' Head NASDAQ Trader contacted the compliance department after discovering what Dadante was doing. A Ferris compliance officer informed Dadante that the practice of playing with the bid was manipulative and violated both Ferris' policies as well as securities rules and regulations. The Head NASDAQ Trader then told the traders he supervised to refrain from honoring any customer requests to upbid and then immediately downbid Innotrac. This compliance officer alerted the Senior Executive A that the IPOF account was manipulating the bid for Innotrac stock. Senior Executive A, however, took no reasonable action in response to these red flags.

19. On August 4, 2003, the Compliance Director met with the author of the May 23 Memo and Senior Executive A, in part, to discuss a plan of action to deal with the IPOF account and Glantz's lack of supervision. During the meeting, they also discussed several other Glantz accounts mentioned in the May 23 Memo, including one that held an abnormally large concentration of Innotrac stock. Senior Executive A failed to reasonably address these red flags.

20. At around the same time as the August 4, 2003 meeting, Dadante's accumulation of Innotrac had caused him to trigger Innotrac's poison pill provision. To circumvent the poison pill and avoid the margin restrictions that had been placed on the IPOF account, Dadante and Glantz opened a new account at Ferris, with Glantz as the registered representative, using the name of a fictitious partnership, GSGI, so that Dadante could continue to manipulate the price of Innotrac. Dadante and Glantz then placed wash trades between the GSGI and IPOF accounts. On August 25, 2003, a margin clerk at Ferris noticed that the GSGI account appeared on a free riding report for a 43,700-share trade in Innotrac on August 21. The clerk reported it to his supervisor, who in turn, notified the author of the May 23 Memo. On August 25, 2003, she emailed the Compliance Director and Senior Executive A that Dadante had opened another account at Ferris and had started buying Innotrac in this new account. Three days later, the Operations Director emailed Senior Executive A that the GSGI account belonged to Dadante and had started purchasing Innotrac shares. She also noted that Glantz's customers now owned over 25% of Innotrac and that another account referenced in the May 23 Memo was 92% concentrated in Innotrac. Senior Executive A failed to reasonably address these red flags.

21. In late August 2003, Senior Executive A had a conversation with Senior Executive B, in which they discussed the compliance department's continued concerns regarding Glantz's supervision. Senior Executive B said that he was going to officially transfer Glantz from the Beachwood office to the Baltimore branch office.

22. On September 4, 2003, Senior Executive A met with Glantz and Senior Executives B and C, and they all discussed IPOF and the significant and unusual accumulation of Innotrac shares in IPOF and another Glantz customer account. However, none of these Senior Executives took any action to reasonably respond to the red flags discussed at this meeting.

23. On January 29, 2004, a compliance officer emailed Senior Executive A that the margin debit in the IPOF account had grown to \$16.1 million and that the non-Innotrac securities in the account were valued at only \$13.2 million. This compliance officer further noted that

several of the non-Innotrac securities held in the IPOF account were illiquid and highly concentrated and that Ferris could not sell them at their current market value. Thereafter, Senior Executive A unilaterally restricted Glantz from accepting or placing any customer orders for Innotrac and he personally conveyed this restriction to Glantz. By February 4, 2004, the margin balance in the IPOF account had grown to \$18.1 million and the account posed a significant credit risk for Ferris. That same day, Senior Executive A wrote a memorandum to the Credit Committee, which he sent to certain other senior executives, including Senior Executive C, stating, among other things, that there continued to be “a lack of clear definition as to who has day to day supervisory responsibilities for Steve Glantz.” Ferris’ Credit Committee subsequently restricted the IPOF account by prohibiting the use of margin for any future purchases of Innotrac. However, again, Senior Executives A, B, and C failed to reasonably respond to the red flags discussed in this memorandum regarding Glantz’s conduct and lack of supervision at that time.

24. On February 5, 2004, a compliance officer sent Senior Executive A an email stating that Ferris’ Innotrac market maker had received an order from another brokerage firm to buy 10,000 shares of Innotrac and they were “99% certain” that the order was related to IPOF. That same day, Glantz sent an email to Senior Executives B and C that he did not want to worry about “taking the fall for a situation that is absolutely not my fault,” and that he did not want to leave Ferris. On February 9, 2004, Senior Executive B met with Glantz, Dadante, and an attorney who represented both of them, to discuss the new restrictions being placed on the IPOF account. Senior Executives A, B, and C, however, all failed reasonably to respond to Glantz’s lack of supervision and the other problems that had previously been brought to their attention with regard to Glantz’s handling of his customer accounts.

25. Following the February 9, 2004 meeting, neither Dadante nor IPOF purchased any more Innotrac stock through Ferris. Glantz, however, continued to engage in manipulative, unsuitable and unauthorized trading in other customer accounts. Among other things, Glantz utilized excessive margin to make unauthorized purchases of speculative stocks for customer accounts. Glantz’s use of margin and the nature and concentration of the stocks he purchased were unsuitable for his customers. Glantz did not disclose these facts, or the risks involved, to his customers. Glantz effected such trades deliberately for the purpose of increasing his own income.

26. In March 2004, many months after Glantz began splitting his time between Ferris’ Baltimore office and the Beachwood office and eight months after Senior Executives A and B discussed transferring Glantz from the Beachwood office to the Baltimore branch office, he was officially transferred to Ferris’ Baltimore branch office. No one informed the Baltimore branch manager (“Baltimore manager”) of any issues involving Glantz or his handling of his customers’ accounts.

27. In the spring and summer of 2004, Ferris had a great deal of turnover in its Compliance Department, including the departures of the Compliance Director and the author of the May 23 Memo. Senior Executive A hired a new Compliance Director (“Compliance Director No. 2”) and several other compliance officers. Senior Executive A, however, never briefed any of these new compliance employees regarding Glantz, Dadante, or IPOF.

28. In September 2004, two of the new Ferris compliance officers conducted the annual compliance audit for the Baltimore branch. When they reviewed Glantz's customer accounts, they became concerned that Glantz was engaging in unsuitable trading and was orchestrating transactions in his customers' accounts that were designed to artificially support the price of Innotrac. During the audit, the Baltimore manager told the compliance officers, among other things, that he was unable to supervise Glantz and that Glantz needed to be terminated. The compliance officers subsequently wrote a memorandum to Senior Executive A detailing their findings regarding Glantz. The memorandum discussed several Glantz customer accounts other than IPOF, the majority of which had been previously discussed in the May 23 Memo. This memorandum reported that all of these accounts had stated investment objectives of "growth and income" and had appeared on Ferris' "active account" report for the month of September 2004, and that most of the accounts had engaged in frequent, short-term trading during this period. The memorandum further stated that these accounts had a "preponderance for large share quantity, low-priced, speculative investments." The memorandum also reported that on September 30, 2004, Glantz cross traded 50,000 shares of Innotrac worth over \$400,000 by selling these shares from one of his customer's accounts to four other customers' accounts, and that these trades were a "cause for concern." This memorandum concluded that "the appropriate supervisory oversight is currently not in place for Mr. Glantz." Senior Executive A failed reasonably to respond to the red flags discussed in this memorandum at that time.

29. On December 1, 2004, Dadante received a margin call in one of his accounts at another brokerage firm. Glantz agreed to help Dadante by purchasing Innotrac shares from Dadante's non-Ferris account for the accounts of Glantz's other customers at Ferris. In accordance with their scheme, by December 7, 2004, Glantz had bought 105,700 additional Innotrac shares worth approximately \$927,000 from Dadante for certain of Glantz's other customers at Ferris.

30. On December 8, 2004, a Ferris compliance officer discovered these trades and told Senior Executive A about them. At Senior Executive A's direction, the compliance officer called three of the customers whose accounts were involved in the trades. He learned from the customers that they had no knowledge of the trades. He also learned that two of the three customers did not even know their accounts were utilizing margin, even though they both had significant margin debits. Around this same time, Compliance Director No. 2 told Senior Executive A that he believed that Glantz was manipulating the price of Innotrac stock and recommended that Glantz be fired immediately.

31. On December 15, 2004, Senior Executive A wrote a memorandum to Senior Executives B and C detailing his concerns about Glantz and recommending that Glantz be terminated (the "Termination Memo"). He emailed the Termination Memo to Senior Executives B and C in the early morning hours of December 16, 2004.

32. In the Termination Memo, Senior Executive A stated, among other things, that Glantz's investments and use of margin for the accounts of one of his individual customers was "clearly unsuitable" and that the trading in these accounts exposed Glantz and Ferris to "claims of churning." The Termination Memo also reported that the compliance department had contacted

the customers for whose accounts Innotrac had been purchased in December 2004, that none of the customers had initiated the trades, that they did not know that the purchases had been made, and that there was no written discretionary authority for these accounts. The Termination Memo also stated that Glantz had structured the December trades to avoid disrupting the market for Innotrac. The Termination Memo further stated that Glantz had been “essentially unsupervised” during his tenure at Ferris and concluded by recommending that Glantz be terminated.

33. Senior Executive A and Compliance Director No. 2 met with Senior Executives B and C to discuss the issues raised in the Termination Memo. Senior Executive B challenged the recommendation that Glantz be terminated and suggested that Glantz instead be placed on special supervision. At the end of the meeting, Senior Executive A retracted his recommendation that Glantz be fired and agreed with Senior Executive B to allow Glantz to be placed on special supervision. Senior Executive C acquiesced in that decision.

34. Senior Executive A caused Ferris to file a Form RE-3 with the NYSE. However, he only included on the Form RE-3 information about Glantz’s trading without written authorization. He did not disclose in the Form RE-3 filing any of the other concerns that he included in the Termination Memo.

35. Pursuant to the memorandum outlining the details of Glantz’s special supervision, Senior Executive B became Glantz’ supervisor. After being placed on special supervision, Glantz was assigned to work out of Ferris’ Hunt Valley, Maryland branch. Senior Executive B, however, was Glantz’s supervisor, not the Hunt Valley branch manager. Thus, Senior Executive B was responsible for supervising Glantz in accordance with the special supervision memorandum and Ferris’ routine supervisory procedures. While under Senior Executive B’s supervision, Glantz continued to engage in unauthorized, unsuitable and manipulative trading in his customers’ accounts. Senior Executive B did not discover Glantz’s continuing fraud, because he was not reasonably performing his duties as Glantz’s supervisor. If Senior Executive B had followed Ferris’ routine supervisory procedures and the special supervisory procedures in the special supervision memorandum, he would have been able to detect and prevent Glantz’s unsuitable, unauthorized, and manipulative trading. Moreover, Senior Executive A did not monitor whether Glantz was being reasonably supervised by Senior Executive B.

36. Soon after being placed on special supervision, Glantz received a stock tip from an individual in Canada that positive news would soon be released about a company called ATC Healthcare, Inc. (“ATC Healthcare”). Based on this tip, on Friday, February 4, 2005, Glantz bought a total of 500,000 shares of ATC Healthcare for himself and for certain customers’ accounts without their authorization. Glantz, however, did not allocate these shares at the time of the purchases. At the end of the day, Glantz allocated 480,000 shares among six customer accounts, and allocated 20,000 to his personal account. The next Monday and Tuesday, Glantz purchased an additional 480,000 shares of ATC Healthcare for his customers’ accounts. Although no positive news was released about ATC Healthcare during this period, Glantz’s purchases caused the stock price to increase from \$0.30 to \$0.46 a share in just a few days time. Glantz subsequently sold his 20,000 shares at a profit, but did not sell the remaining 960,000 shares that he purchased without authorization for his customers’ accounts. Senior Executive B did not discover these and

other manipulative and unauthorized transactions, because he was not reasonably performing his duties as Glantz's supervisor.

37. Ferris' Anti-money Laundering Officer ("AML Officer") discovered these ATC Healthcare trades and emailed Senior Executive A on February 23, 2005, because he was concerned that the trades "could create the appearance of manipulative market practices." In the email, he asked Senior Executive A to request that retail sales management provide an explanation for the trades. Senior Executive A never responded to this email, and never asked retail sales management for an explanation. On April 5, 2005, the AML Officer sent Senior Executive A a follow-up email, with the original email attached. In this second email, he asked if the trades discussed in his original email were suspicious because, if so, he was obligated to file a Suspicious Activity Report ("SAR"). Senior Executive A again failed to respond. On May 13, 2005, Compliance Director No. 2 sent an email, with the AML Officer's two emails attached, telling Senior Executive A that they needed to get an explanation for the ATC Healthcare trades. Again, Senior Executive A failed to respond. The AML Officer then followed-up in person with Senior Executive A several times to attempt to discuss the trades and the possible need to file a SAR. Finally, in June 2005, the AML Officer stood in Senior Executive A's office doorway and refused to leave until he received an answer. Senior Executive A finally told the AML Officer that Ferris would not be filing a SAR for these ATC Healthcare trades.

38. On April 4, 2005, a compliance officer emailed Senior Executive A that through his review of certain Innotrac Form 4 filings, he had discovered that IPOF was on the other side of the December 2004 trades that had triggered the Termination Memo. Senior Executive A responded that "I find it highly unlikely that Glantz did not know who . . . was selling when he placed those shares in his customers' account." He concluded his email by stating that they needed to have another talk with Glantz. However, Senior Executive A did not speak with Glantz or reasonably respond to these red flags.

39. In June 2005, the Compliance Department's audit report for the Hunt Valley branch identified 18 Glantz customer accounts as requiring monitoring of their trading activity and suitability, stating that Ferris should monitor and review those 18 accounts "in regard to their investment objective(s), client profile, portfolio holdings, margin debit, gain/loss analysis...and commissions generated." Senior Executives A and B received this audit report but again failed reasonably to respond to these red flags.

40. On June 29, 2005, Dadante called the Ferris trading desk and told one of the traders that he was going to place a large order to buy Innotrac through his accounts at another brokerage firm. Dadante told the trader that he did not want to buy any shares from any of Glantz's customers. Despite this instruction, the trader matched Dadante's buy order with certain Glantz customers who had placed sell orders, as was appropriate under the circumstances. The trader relayed all of this information to the Head NASDAQ Trader, who that same day sent Senior Executive A and a compliance officer an email summarizing what had transpired and concluding the email by stating that the "approach to this order raises warning flags that could point to attempted price manipulation." Only a few minutes later, this compliance officer emailed Senior Executive A that the transaction entails "more manipulation concerns." Senior

Executive A responded an hour later that he “agreed” and that he would provide directions to the trading desk. However, once again, Senior Executive A failed to reasonably respond to these red flags. Senior Executive B did not discover any of these transactions, because he was not performing his duties as Glantz’s supervisor.

41. During the period of Glantz’s misconduct at Ferris, the firm failed to design reasonable systems to implement its written supervisory policies and procedures with respect to the special work arrangement under which Glantz was permitted to work. If Ferris had established these systems, it is likely that Glantz’s fraudulent conduct could have been prevented and detected.

42. Glantz remained an employee of Ferris until November 2005, at which time several IPOF investors filed a lawsuit and named Ferris as one of the defendants.

Failures to File Suspicious Activity Reports

43. The Bank Secrecy Act (“BSA”),² as amended by the USA PATRIOT Act³ and implemented under rules promulgated by the U.S. Department of Treasury’s Financial Crimes Enforcement Network (“FinCEN”), requires that broker-dealers file SARs with FinCEN to report a transaction (or a pattern of transactions of which the transaction is a part of) involving or aggregating to at least \$5,000 that the broker-dealer knows, suspects or has reason to suspect: (1) involves funds derived from illegal activity or were conducted to disguise funds derived from illegal activities; (2) were designed to evade any requirements of the BSA; (3) had no business or apparent lawful purpose; or (4) involved use of the broker-dealer to facilitate criminal activity. 31 C.F.R. § 103.19(a)(2).

44. The failure to file a SAR as required by 31 C.F.R. § 103.19 is a violation of Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.

45. From August 2002 through November 2005, Glantz, one of his customers, and a registered representative at another brokerage firm, participated in a scheme to manipulate the market for Innotrak stock in transactions that totaled at least \$5,000. In addition, Ferris’s AML Officer noted that the ATC Healthcare trades “could create the appearance of manipulative market practices.”

46. The information available to Ferris regarding the manipulative practices involving the trading in Innotrak stock, in particular the red flags discussed above, as well as the AML Officer’s observations regarding the ATC Healthcare trades, should have suggested to Ferris that it was required to generate and file SARs. However, Ferris failed to file SARs related to the manipulative practices in Innotrak stock and the suspicious trades in ATC Healthcare.

² Currency and Financial Transactions Reporting Act of 1970 (commonly referred to as the BSA), 12 U.S.C. § 1829b, 12 U.S.C. §§ 1951-1959, and 31 U.S.C. §§ 5311-5330.

³ Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. No. 107-56, 115 Stat. 296 (2001).

Violations

47. As a result of the conduct described above, Ferris failed reasonably to supervise Glantz with a view to detecting and preventing Glantz's violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and willfully violated Section 17(a) of the Exchange Act and Rule 17a-8 thereunder by failing to file SARs.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act and Section 203(e) of the Advisers Act, it is hereby ORDERED that:

A. Respondent Ferris cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Exchange Act and Rule 17a-8 promulgated thereunder;

B. Respondent Ferris is censured.

C. Respondent Ferris shall, within 30 days of the entry of this Order, pay disgorgement of \$222,183 and prejudgment interest of \$78,473, for a total of \$300,656, to the United States Treasury. It is further ordered that Respondent shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$500,000 to the United States Treasury. If timely payments are not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. Payments shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Ferris as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Timothy L. Warren, Division of Enforcement, Securities and Exchange Commission, 175 W. Jackson Blvd., Chicago, IL 60604.

By the Commission.

Elizabeth M. Murphy
Secretary