

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2007007161501**

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REGISTRATION & DISCLOSURE

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

RE: First Dallas Securities, Inc.
CRD No. 24549

Eric Jay Marshall
General Securities Representative and Research Analyst
CRD No. 2981115

[REDACTED]

Pursuant to NASD Rule 9216 of FINRA's Code of Procedure, First Dallas Securities, Inc. ("FDS"), Eric Jay Marshall ("Marshall") and [REDACTED] ("Respondents," collectively) submit 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 Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, 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

First Dallas Securities, Inc. is currently, and was during all times relevant hereto, a member of FINRA (f/k/a National Association of Securities Dealers or NASD) and registered as a broker/dealer with the Securities and Exchange Commission. The firm registered with FINRA in July 1989 as a full-service, retail broker-dealer. It currently employs 29 registered personnel.

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Eric Jay Marshall entered the securities industry in October 1997, when he associated with FDS, where he currently serves as a General Securities Principal and General Securities Representative. During the relevant time period, Marshall was also registered as a Research Analyst with FDS. Marshall also currently serves as a Registered Investment Advisor with an affiliated entity. During his career in the securities industry, Marshall has obtained Series 7, 24, 63, 65, 86 and 87 securities licenses.

[REDACTED] entered the securities industry in April 2006, when he associated with FDS, where he currently serves as a General Securities Representative. During the relevant time period, [REDACTED] was also registered as a Research Analyst with FDS. [REDACTED] also currently serves as a Registered Investment Advisor with an affiliated entity. During his career in the securities industry, [REDACTED] has obtained Series 7, 66, 86 and 87 securities licenses.

None of the Respondents has any prior relevant disciplinary history

OVERVIEW

This case involves violations of NASD research report and research analyst provisions by FDS and two of its research analysts, and related supervisory violations by FDS, in connection with research reports published by FDS. The firm also failed to develop and implement written supervisory procedures regarding watch lists or restriction lists. Finally, for the years 2006 and 2007, FDS failed to develop and implement a Firm Element Continuing Education program.

FACTS AND VIOLATIVE CONDUCT

1. Research Analyst and Research Reports Violations

During the period from January 2007 to June 2007, FDS issued research reports that failed to comply with various provisions of NASD Rule 2711, which governs the conduct of research analysts and the issuance of research reports by FINRA member firms. Specifically, NASD Rule 2711(g)(2) prohibits a research analyst from purchasing or selling any security, or any option on or derivative of such security, issued by a company that the analyst follows for a period beginning 30 calendar days before and ending five calendar days after the publication of a research report concerning the company or a change in a rating or price target of the company's securities. Rule 2711(g)(3) prohibits a research analyst from

purchasing or selling any security or any option on or derivative of such security in a manner inconsistent with the research analyst's recommendation as reflected in the most recent research report published by the member. Pursuant to Rule 2711(a)(7), the prohibitions in Rules 2711(g)(2) and (g)(3) extend to any account in which a research analyst or member of the research analyst's household has a financial interest, or over which the analyst has discretion or control.

Additionally, NASD Conduct Rule 2711(c) prohibits members from submitting a research report to the subject company before its publication. However, Rule 2711(c)(2)(A) permits members to submit certain sections of a research report to the subject company prior to publication in order to verify the factual accuracy of information in those sections, provided that the sections do not contain the research summary, the research rating or the price target. Rule 2711(h)(1)(A) requires members to disclose in research reports if the research analyst or a member of the research analyst's household has a financial interest in the securities of the subject company, and the nature of the financial interest.

Rule 2711(h)(1)(B) requires members to disclose in research reports if, as of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), the member or an affiliate beneficially own 1% or more of any class of common equity securities of the subject company. Rule 2711(h)(7) requires members to disclose in research reports the risks that may impede achievement of the stated price target. Finally, Rule 2711(h)(10) requires that disclosures be presented prominently, clearly and comprehensively on the front page of the research report, or the front page must refer to the page on which required disclosures are found.

Violations of NASD Conduct Rule 2711(g)(2)

During the relevant time period, FDS, Eric Marshall, and [REDACTED] violated NASD Rule 2711(g)(2). Specifically, the firm permitted Marshall and [REDACTED] to execute a total of five trades in covered securities during a period beginning 30 calendar days before and ending five calendar days after publishing research reports concerning the subject companies.

In accounts owned by Marshall or members of his household, or accounts over which he exercised discretionary authority, Marshall executed three trades involving shares of Interphase Corporation ("INPH") during the prohibited time period. Specifically, on April 5, 2007, Marshall sold 200 shares of INPH in his

brokerage account that was jointly owned with his wife. The transaction generated trading profits of \$428.07. On the same date, Marshall sold a total of 700 shares of INPH in two customer accounts over which he exercised discretionary authority. FDS published research reports regarding INPH, which were drafted by Marshall, on April 12, 2007, April 17, 2007, and May 1, 2007.

On two different occasions during prohibited time periods, [REDACTED] executed trades involving Hallmark Financial Services, Inc. ("HALL"). Specifically, on March 5, 2007, [REDACTED] purchased 100 shares of HALL in his wife's IRA account. Subsequently, on March 27, 2007, FDS published a research report regarding HALL that was drafted by [REDACTED]. Additionally, on April 24, 2007, [REDACTED] purchased 350 shares of HALL in a customer account over which he exercised discretionary authority. On May 11, 2007 and May 15, 2007, FDS published research reports regarding HALL that were drafted by [REDACTED].

Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 2711(g)(2) by First Dallas Securities, Inc., Eric Jay Marshall, and [REDACTED].

Violations of NASD Conduct Rule 2711(g)(3)

During the relevant time period, FDS and Eric Marshall violated NASD Rule 2711(g)(3), in that FDS permitted Marshall to trade in a manner inconsistent with his recommendation as reflected in the most recent research report published by FDS. Specifically, in three separate transactions on April 5, 2007, Marshall sold shares of INPH. Such trading activity was inconsistent with Marshall's recommendation as reflected in the most recent research report published by FDS regarding INPH, which was dated February 5, 2007. In the report, Marshall stated "[w]e recommend INPH's shares as [a] speculative investment and believe the stock price has the potential to appreciate 50% over the next 12-18 months."

Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 2711(g)(3) by First Dallas Securities, Inc., and Eric Jay Marshall.

Violations of NASD Conduct Rule 2711(c)(2)(A)

During the relevant time period, FDS and Eric Marshall violated NASD Rule 2711(c)(2)(A) by providing the subject company with a draft copy of a research report that contained prohibited information, before the report was published. Specifically, on January 19, 2007, Marshall sent a draft copy of a research report,

which contained a research summary, to the CEO of the subject company prior to the publication of the report.

Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 2711(c)(2)(A) by First Dallas Securities, Inc. and Eric Jay Marshall.

Violations of NASD Conduct Rule 2711(h)(1)(A)

During the period from February 2007 to May 2007, FDS, acting through Eric Marshall, issued research reports that failed to comply with NASD Rule 2711(h)(1)(A). Specifically, FDS permitted Marshall to publish five research reports that failed to disclose that Marshall and/or a member of Marshall's household had a financial interest in the securities of the subject company, and the nature of the financial interest.

Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 2711(h)(1)(A) by First Dallas Securities, Inc. and Eric Jay Marshall.

Violations of NASD Conduct Rule 2711(h)(1)(B)

During the relevant time period, FDS failed to affirmatively disclose in one research report that an affiliate owned more than one percent of the common equity securities of the subject company. Specifically, on January 5, 2007, FDS published a research report that did not disclose that an FDS affiliate owned one percent or more of the subject company's equity securities during the relevant time period. Instead, the report stated, "First Dallas Securities, Inc. and its officers and employees may have an interest in some or all of the securities mentioned herein."

Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 2711(h)(1)(B) by First Dallas Securities, Inc.

Violations of NASD Conduct Rule 2711(h)(7)

During the period from January 2007 to May 2007, FDS failed to comply with NASD Rule 2711(h)(7) in connection with six research reports. Specifically, the firm failed to disclose the risks that may have impeded achievement of the price targets stated in each report.

Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 2711(h)(7) by First Dallas Securities, Inc.

Violations of NASD Conduct Rule 2711(h)(10)

During the period from January 2007 through June 2007, FDS failed to comply with NASD Rule 2711(h)(10) in connection with twenty-three research reports that it published. Specifically, the firm's research reports did not include clear, comprehensive, and prominent disclosures regarding whether FDS or any of its affiliates, officers or employees held interests in the securities of the subject companies. Instead, in each report the firm used indefinite language stating that the firm, officers, employees, and affiliates "may have [had] an interest in some or all of the securities mentioned herein." Rule 2711(h)(10) requires affirmative disclosure of financial interest in the securities of a subject company.

Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 2711(h)(10) by First Dallas Securities, Inc.

2. Supervision

Violations of NASD Conduct Rules 2110, 2711(i) and 3010

During the period from January through June 2007, FDS violated NASD Conduct Rule 2711(i) by failing to adopt and implement written supervisory procedures reasonably designed to ensure that FDS and its employees complied with the provisions of NASD Rule 2711. Specifically, FDS failed to develop and implement adequate written supervisory procedures concerning Rule 2711(h)(1)(A), in that its procedures did not require disclosure in research reports that a member of the research analyst's household had a financial interest in the subject company. The firm also failed to adequately implement its written supervisory procedures regarding compliance with NASD Conduct Rules 2711(g)(2) and (3), 2711(c)(2)(A), 2711(h)(1)(B), 2711(h)(7), and 2711(h)(10).

The firm also violated NASD Rule 2711(i) by failing to provide an attestation to FINRA for the year 2006, that it had adopted and implemented procedures regarding complying with NASD Rule 2711.

Finally, the firm failed to develop and implement any written supervisory procedures concerning watch lists or restriction lists, in violation of NASD Rule 3010.

Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2110, 2711(i) and 3010 by First Dallas Securities, Inc.

3. Continuing Education

Violations of NASD Conduct Rules 2110 and 1120(b)

During the years 2006 and 2007, FDS violated NASD Rules 2110 and 1120(b) by failing to develop and implement a Firm Element Continuing Education program. Specifically, the firm failed to develop a written training plan for its covered registered persons.

Such acts, practices and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 1120(b) by First Dallas Securities, Inc.

B. Respondents also consent to the imposition of the following sanctions:

First Dallas Securities, Inc.: A censure and a monetary fine in the amount of \$50,000, of which \$10,000 will be imposed jointly and severally with Marshall.

Eric Jay Marshall: A 15 calendar day suspension as a research analyst, and a monetary fine in the amount of \$15,428.07, of which \$10,000 will be imposed jointly and severally with FDS. The fine includes \$428.07 in disgorgement of trading profits.

[REDACTED]: A monetary fine in the amount of \$5,000.

Respondents agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondents have submitted Election of Payment forms showing the method by which they propose to pay the fines imposed.

Respondents specifically and voluntarily waive any right to claim that they are 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

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

A. To have a Formal Complaint issued specifying the allegations against them;

- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondents specifically and voluntarily waive 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.

Respondents further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of NASD Rule 9143 or the separation of functions prohibitions of NASD Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondents understand that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to NASD Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondents; and
- C. If accepted:
 - 1. this AWC will become part of Respondents' permanent disciplinary records and may be considered in any future actions brought by FINRA or any other regulator against them;

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and [REDACTED]

2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondents' 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. Respondents 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. Respondents 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 Respondents' rights to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they 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.

Respondents certify that they have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that they have agreed to its 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 them to submit it.

10-10-08
Date

First Dallas Securities, Inc.

By: Donald W. Hodges
(signature)

Name: Donald W. Hodges
(printed name)

Title: Chairman

Letter of Acceptance, Waiver and Consent
E2007007161501/First Dallas Securities, Inc., Eric Jay Marshall
and [REDACTED]

10-9-08

Date

Eric J. Marshall

Eric Jay Marshall, Respondent

10/10/08

Date

Reviewed by:

[Signature]
Respondents' Counsel

KAREN COOK
COUNSEL FOR
FIRST DALLAS SECURITIES

Accepted by FINRA:

11-10-2008
Date

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

[Signature]

Karen E. Whitaker, Senior Regional Counsel
FINRA Department of Enforcement
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