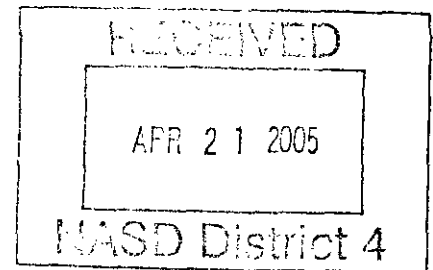


NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. C040500_21

To: Department of Enforcement
NASD

Re: Chapman Securities, Inc.
Member
(CRD No. 25688)
and
Michael David Relihan
General Securities Principal, Municipal Securities
Principal and Options Principal
(CRD No. 501990)



Pursuant to NASD Procedural Rule 9216, Chapman Securities, Inc. (Chapman) and Michael David Relihan (Relihan) (collectively referred to as Respondents) submit this Letter of Acceptance, Waiver and Consent (AWC) for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against Respondents alleging violations based on the same factual findings.

Respondents understand that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Enforcement and National Adjudicatory Council (NAC), pursuant to NASD Procedural Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondents; and
3. If accepted:
 - a. this AWC will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against Respondents;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about Respondents' disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Procedural Rule 8310 and IM-8310-2; and
 - d. 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 allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects Respondents' testimonial obligations or rights to take legal positions in litigation in which NASD is not a party.

Respondents also understand that their experience in the securities industry and disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

Chapman was a member of NASD from March 1990 through December 6, 2004. Chapman filed a Form BDW on November 28, 2004, thereby withdrawing from NASD membership. Moreover, Chapman's membership with NASD was terminated on December 6, 2004 for failing to pay arbitration fees. Chapman was the subject of four prior formal disciplinary actions by NASD as follows: AWC No. CMS020186 (FIPS violations), AWC No. C04960041 (MSRB G-37 political violations), AWC C04920029 (net capital violations) and AWC No. C04040022 (failure to supervise). In addition, Chapman was the subject of a disciplinary action by the state of Kansas in Docket No. 2002E020/KSC 2001-4304 (failure to supervise), which is related to the instant matter.

Relihan entered the securities industry in June 1977 when he associated with an NASD member firm. From December 1, 1989 through August 16, 2004, Relihan was associated with Chapman as its president and registered with NASD as a general securities principal, municipal securities principal, and an options principal. From August 17, 2004 through the present, Relihan has been associated with another member firm and registered with NASD as a general securities principal, municipal securities principal, and an options principal. Relihan has been the subject of two prior formal disciplinary actions by NASD, as follows: AWC C04920029 (net capital violations) and AWC No. C04040022 (failure to supervise). In addition, Relihan was the subject of a disciplinary action by the state of Kansas in Docket No. 2002E020/KSC 2001-4304 (failure to supervise), which is related to the instant matter.

I. WAIVER OF PROCEDURAL RIGHTS

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

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

Furthermore, Respondents specifically and voluntarily waive any right to claim bias or prejudice 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.

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

II. ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, without admitting or denying the allegations or findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:

Late Filing of Annual Audited Report **SEC Rule 17a-5 and NASD Conduct Rule 2110**

1. Chapman, acting through Relihan, failed to file its annual audited report for the year ending December 31, 2003, by the due date of March 1, 2004. Instead, the report was received on May 18, 2004, 78 days late.
2. Such acts, practices and conduct constitute separate and distinct violations of SEC Rule 17a-5 and NASD Conduct Rule 2110 on the part of Chapman, and NASD Conduct Rule 2110 on the part of Relihan.

Net Capital Deficiency **SEC Rule 15c3-1 and NASD Conduct Rule 2110**

3. From January 1, 2000 through July 31, 2004, Chapman, acting through Relihan, contravened SEC Rule 15c3-1 in that it utilized the instrumentalities of interstate commerce to conduct a securities business while failing to maintain minimum net capital. Out of the 55 months reviewed, Chapman experienced net capital deficiencies on 46 separate occasions, ranging from \$11,573 to \$215,770.
4. Such acts, practices and conduct constitute separate and distinct violations of SEC Rule 15c3-1 and NASD Conduct Rule 2110 on the part Chapman, and NASD Conduct Rule 2110 on the part of Relihan.

Inaccurate Net Capital Computation
SEC Rule 17a-3(a)(11) and NASD Conduct Rule 2110

5. From January 1, 2000 through July 31, 2004, Chapman, acting through Relihan, failed to prepare accurate net capital computations. Out of the 55 months reviewed, Chapman failed to prepare accurate net capital computations on 46 occasions.
6. Such acts, practices and conduct constitute separate and distinct violations of SEC Rule 17a-3(a)(11) and NASD Conduct Rule 2110 on the part of Chapman, and NASD Conduct Rule 2110 on the part of Relihan.

Late Filing of FOCUS Report
SEC Rule 17a-5(a)(2)(iv) and NASD Conduct Rule 2110

7. Chapman, acting through Relihan, failed to file its FOCUS report for the month of March 2004 by the due date of April 26, 2004. Instead, the report was filed on April 27, 2004.
8. Such acts, practices and conduct constitute separate and distinct violations of SEC Rule 17a-5(a)(2)(iv) and NASD Conduct Rule 2110 on the part of Chapman and NASD Conduct Rule 2110 on the part of Relihan.

B. Respondents also consent to the imposition, at a maximum, of the following sanctions:

1. a bar of Relihan as a principal; and
2. a joint and several fine of \$15,000 against Chapman and Relihan.

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

III. OTHER MATTERS

- A. Respondents understand that they may attach a Statement of Corrective Action to this AWC, which 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 NASD, nor does it reflect the views of NASD or its staff.
- B. Respondents agree to pay any monetary sanctions imposed on them upon notice that this AWC has been accepted and that such payments are due and payable and have attached an Election of Payment form showing the method by which they propose to pay any fine imposed.

- C. Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.
- D. Respondent Relihan understands that if he is barred or suspended from association with any NASD member, he becomes subject to a statutory disqualification as that term is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended. Accordingly, Respondent Relihan may not be associated with any NASD member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension. (See NASD Procedural Rule 8310 and IM-8310-1.)

Respondents certify that this AWC has been read and that all provisions of this AWC are understood, and that Respondents have been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce Respondents to submit it.

CHAPMAN SECURITIES, INC.

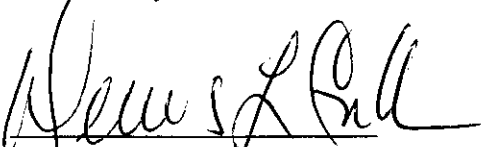
4-18-05
Date

By: 
Michael David Relihan, President

4.18.05
Date


MICHAEL DAVID RELIHAN

Reviewed by:


Counsel for Respondents

Accepted by NASD:

May 31, 2005
Date


Thomas D. Clough, Associate Vice President and
District Director; signed on behalf of the Director
of ODA, by delegated authority