

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. C8A050056

To: Department of Enforcement
NASD

Re: Ariel Distributors, Inc.
Broker Dealer
(CRD No. 38333)

Pursuant to Rule 9216 of NASD Code of Procedure, Ariel Distributors, Inc. ("Respondent"), submits 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 Respondent alleging violations based on the same factual findings.

Respondent understands 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") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submissions will not be used as evidence to prove any of the allegations against Respondent; and
3. If accepted:
 - a. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against Respondent;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about Respondent's disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM 8310-2; and
 - d. Respondent 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 Respondent's testimonial

obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

Respondent also understands that its 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:

Ariel Distributors, Inc. ("Member") became a Member of NASD and became registered with the Securities and Exchange Commission ("SEC") in 1995 as a limited purpose broker-dealer that functions as the distributor for the Ariel Funds, a proprietary fund family. The Member's membership with NASD and registration with the SEC remain currently in effect. The Member has no disciplinary history within the last five years.

I

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under NASD's Code of Procedure:

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

Further, Respondent 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 its acceptance or rejection.

II

ACCEPTANCE AND CONSENT

A. Respondent hereby accepts and consents, 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:

1. On March 28, 2002, June 28, 2002, September 30, 2002, December 31, 2002 and March 31, 2003, the Member failed to comply with SEC Rule 15c3-1, in that it used the mails or other means or instrumentalities of interstate commerce to effect transactions in securities when it failed to maintain the minimum required net capital, in violation of SEC Rule 15c3-1 and NASD Conduct Rule 2110.
2. The Member failed to comply with SEC Rule 17a-3, in that it prepared inaccurate trial balances, general ledgers and net capital computations for the periods ending March 28, 2002, June 28, 2002, September 30, 2002, December 31, 2002 and June 30, 2003, in violation of SEC Rule 17a-3 and NASD Conduct Rules 2110 and 3110.
3. The Member failed to comply with SEC Rule 17a-5, in that it filed with NASD FOCUS IIA Reports for the calendar months ending March 28, 2002; June 28, 2002; September 30, 2002; December 31, 2002; March 31, 2003 and December 31, 2003. The FOCUS IIA Reports and the annual audit which were inaccurate in that the Reports overstated the Member's net capital, in violation of SEC Rule 17a-5 and NASD Conduct Rule 2110 by the Member.
4. The Member failed to implement and exercise adequate supervisory controls to monitor and verify the accuracy of the amounts of 12b-1 fees payable that were computed by a non-affiliated entity as of March 28, 2002; June 28, 2002; September 30, 2002; and December 31, 2002, that resulted in inaccurate net capital computations, in violation of NASD Conduct Rule 3010.

B. Respondent also consents to the imposition, at a maximum, of the following sanctions:

A Censure; and

a fine in the amount of \$40,000.

OTHER MATTERS

- A. Respondent understands that it may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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 NASD, nor does it reflect the views of NASD or its staff.
- B. Respondent agrees to pay any monetary sanctions imposed 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 Respondent proposes to pay any fine imposed.
- C. Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Respondent certifies that a duly authorized representative has read and understands all of the provisions of this AWC and has 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 that representative to submit it.

Respondent
For Ariel Distributors, Inc.

May 31, 2005

Date

James W. Atkinson

By: James W. Atkinson
Its: Vice President

Reviewed by:

LAURENCE HAMIL SALVENDY & HILL/Carls p l l c

g. [Signature]
Counsel for Respondent

Accepted by NASD:

June 16, 2005
Date

Carlotta A. Romano

Carlotta A. Romano
Senior Vice President and
Regional Director
Signed on behalf of the Director of ODA,
by delegated authority

ARIEL DISTRIBUTORS, INC.

STATEMENT OF CORRECTIVE ACTION

This Corrective Action Statement is submitted by Respondent, Ariel Distributors, Inc. ("ADI"). It does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD, or its staff.

This Statement is submitted in connection with the Acceptance, Waiver and Consent ("AWC") executed by ADI.

I. ADI

ADI is a limited purpose broker-dealer. ADI has no customers, customer accounts, or customer assets, and does not transact business with customers. ADI's purpose is to act as underwriter for the series of funds of the Ariel Investment Trust, a registered investment company ("Funds"). ADI is paid distribution and services fees by the Funds, which ADI uses in part to compensate dealers selling and promoting the Funds. ADI also distributes promotional materials regarding the Funds to selling dealers and others.

II. AWC

The AWC alleges certain net capital, books and records, filing and supervisory violations arising from two main issues.

The first issue involves ADI's alleged incorrect classification of 12b-1 fee-related receivables and payables in computing net capital (the "Offset Issue").

The second issue involves ADI's use of a bank account to pay 12b-1 fees to other broker-dealers (the "Bank Account Issue").

A. Offset Issue

Prior to approximately March 2004, ADI received 12b-1 fee payments monthly from the Funds shortly after each month's end.

ADI paid certain selling dealers monthly and quarterly, depending on the terms of the dealers' agreements with ADI. For purposes of capital calculations, ADI treated as allowable assets 12b-1 fees receivable from the Funds to the extent of 12b-1 fees payable to the dealers.

ADI followed this capital treatment for 12b-1 fees receivable and payable offsets since ADI commenced business. ADI's capital treatment for such 12b-1 fees was based on ADI's understanding arising from a letter from an NASD assistant director.

In a 2004 examination, the NASD staff questioned ADI's treatment of such receivables. ADI then immediately implemented corrective action measures. ADI ceased relying on its previous interpretation of standards for categorizing such receivables and related offsets. Moreover ADI, as authorized by its agreement with the Funds, requested that the Funds immediately commence paying 12b-1 fees on a weekly, instead of a monthly, basis. This weekly payment basis effectively eliminated ADI's large 12b-1 fee receivable.

B. Bank Account Issue

ADI previously maintained a demand deposit account at State Street Bank in Missouri (the "DDA"), from which ADI paid 12b-1 fees to approximately 1,000 dealers. ADI's agent, Boston Financial Data Services ("BFDS") quarterly prepared a report listing amounts due to such dealers. ADI's sub-administrator, United Missouri Bank ("UMB") reviewed the BFDS report, and informed ADI as to whether the report was accurate. Upon ADI's acceptance of UMB's report, ADI funded the DDA which authorized BFDS to pay checks, or wire transfers, drawn on the DDA to each of such dealers, consistent with the BFDS report.

In 2003 ADI self-discovered a practice whereby a dealer with non-standard servicing agreements was sent duplicate checks for 12b-1 fee payments. Specifically, the dealer was properly paid after submitting monthly invoices which were reviewed and approved by ADI, while also being mistakenly included in the automated check run prepared quarterly by BFDS for payment through the DDA. Although the applicable dealer received duplicate checks from BFDS drawn on the DDA, it never cashed these checks nor did it inform ADI or BFDS that it was receiving such duplicates. However, in preparing ADI's June 30, 2003 Focus Report, ADI noticed an unusual amount of payments to dealers.

ADI investigated and discovered the particular practices described above. Following discovery of the double payment discrepancy, ADI initiated a number of additional review procedures, including review of all such payments.

At the staff's request, in June 2003 ADI determined whether it had operated at a capital deficiency during the periods prior to March 31, 2003. ADI subsequently informed the NASD that ADI's review showed it was in historical capital compliance. At this time, the issue of the treatment of 12b-1 fee receivables had not yet been raised.

ADI also informed the staff of additional corrective measures taken. ADI immediately stopped payment on the mistakenly issued duplicate checks drawn on the DDA. ADI also transferred any remaining funds in the DDA back to ADI's principal account at Bank One, eliminating any question of whether such excess funds were allowable assets.

III. ADDITIONAL CORRECTIVE ACTION

In addition to the measures described above, at the time, these issues came to light, ADI committed to undertake a number of steps to assure capital compliance. Since that time, ADI has fulfilled its commitment as follows:

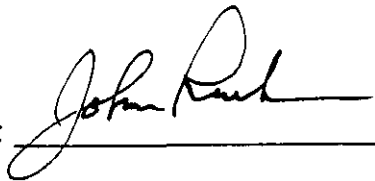
1. ADI presently is in compliance with SEC Rule 15c3-1 and had excess net capital as of March 31, 2005 of approximately \$1,750,000.
2. Since April 9, 2004, ADI added additional capital of \$600,000, and stated its intention to maintain excess net capital of at least \$1,000,000. At all times since then, it has fulfilled its intention and, as of March 31, 2005, had excess net capital of approximately \$1,750,000.
3. In addition to requesting requested weekly payment of the 12b-1 fees as described above, ADI is promptly paying liabilities to its parent (within 30 days).
4. ADI conducted a review of all outside processing agreements and instituted controls to verify and reconcile 12b-1 fee computations, including any bank accounts similar to the DDA.
5. ADI has replaced United Missouri Bank with State Street Bank as its primary sub-administrator for processing 12b-1 fees.
6. ADI engaged a Big Four independent accounting firm to perform internal audits, review ADI's FOCUS Reports, and consult with ADI regarding capital issues. In addition, ADI engaged the same firm to review ADI's procedures with respect to financial controls, including 12b-1 fee receivables and payments.
7. ADI voluntarily provided monthly FOCUS Reports to the NASD for a period of time, until staff indicated that it was no longer necessary to do so.
8. ADI has instituted procedures to monitor its Aggregate Indebtedness ("AI") levels, with a goal of maintaining AI in a range of 4 to 1 which it has done on a continuous basis since April 2004.
9. ADI has retained Morgan Lewis & Bockius, LLP, and Lawrence, Kamin, Saunders & Uhlenhop, L.L.C., as legal counsel for financial and capital issues, as needed.

In light of the above, ADI believes it has taken substantial corrective action resulting in demonstrable steps to correct the deficiencies cited by the staff in its examination, and alleged in the AWC.

Respectfully submitted on behalf of
ARIEL DISTRIBUTORS, INC.

LAWRENCE, KAMIN, SAUNDERS & UHLENHOP, L.L.C.

Dated: May 31, 2005

By: _____