

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E062004010901

TO: Department of Enforcement
NASD

RE: Tejas Securities Group, Inc., Respondent
Member
CRD No. 36705

Arnold Reed Durant, Respondent
General Securities Principal
CRD No. 716150

Pursuant to Rule 9216 of NASD Code of Procedure, we 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 us alleging violations based on the same factual findings.

We 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") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against us; and
3. If accepted:
 - a. this AWC will become part of our permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against us;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about our 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. We 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 our testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

We also understand that our 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:

Tejas Securities Group, Inc. became an NASD member in October 1994. The firm conducts a general securities business from its headquarters in Austin, Texas. The firm's relevant disciplinary history is as follows:

In October 2004, NASD accepted an AWC from Tejas making findings that the firm failed to report timely transactions in violation of NASD Rules 2110 and 6620(A). The firm was censured and fined \$12,000.

In July 2004, NASD accepted an AWC from Tejas making findings that the firm traded ahead of a research report, failed to supervise with respect to its research reports, and failed to accurately and timely report trades, in violation of NASD Rules 2110, 3010, 6110(B), 4632(C), 6130(D)(2), 6230(A), 6620(A)(1), 6620(A)(3), 6620(C), and 6420(A)(1). The firm was censured, fined \$55,000, and required to retain an independent consultant. In connection with this action, Arnold Reed Durant was fined \$10,000 jointly and severally with the firm, and was suspended in all principal capacities for 30 days.

In December 2003, NASD accepted an AWC from Tejas making findings that the firm violated NASD Rules 2110, 2340(A), 1014 and 1017, as well as Securities Exchange Act Rules 15c3-3, 17a-3 and 17a-4. The firm was censured and fined \$30,000. In connection with this action, Arnold Reed Durant was fined \$15,000 jointly and severally with the firm, and was suspended for 10 business days in all principal capacities.

In February 2002, NASD accepted an AWC from Tejas making findings that the firm violated NASD Rules 2110, 3010(B), 4632, 6130, and 6230 by failing to become a registered participant in the Fixed Income Pricing System (FIPS), failing to comply with FIPS rules, and failing to establish, maintain and enforce adequate written supervisory systems. The firm was censured and fined \$9,000.

Arnold Reed Durant entered the securities industry in 1980. He first became registered as a general securities principal of an NASD member in 1986. Durant has been registered with Tejas since December 1998. During the time period discussed herein, Durant served as Tejas' Director of Compliance.

In addition to two disciplinary actions noted above, in September 2003, NASD accepted an AWC from Durant and Tejas, making findings that Durant violated NASD Rules 2110 and 2110 in connection with statements contained on the firm's website. Durant was suspended in all capacities for five days, and fined \$10,000 jointly and severally with the firm.

I.

WAIVER OF PROCEDURAL RIGHTS

We 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 us;
- 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, we 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.

We further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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. We 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:

1. During the period from December 2002 to April 2004, Tejas, acting through Durant:
 - i. failed to disclose the meaning of ratings on four research reports, in violation of NASD Rules 2711(h)(4) and 2110;
 - ii. failed to disclose the distribution of its ratings on thirteen research reports from December 2002 to March 2004, in violation of NASD Rules 2711(h)(5) and 2110;
 - iii. failed to include a required price chart on three research reports from December 2003 to April 2004, in violation of NASD Rules 2711(h)(6) and 2110;
 - iv. failed to disclose receipt of investment banking compensation on one research report in April 2004, in violation of NASD Rules 2711(h)(2) and 2110;
 - v. failed to disclose its market making status on two research reports from February to April 2004, in violation of NASD Rules 2711(h)(8) and 2110;
 - vi. provided a copy of a research report to an issuer in February 2004 without redacting all necessary information including analyst opinions, estimate, and other non-factual information, in violation of NASD Rules 2711(c) and 2110.
 - vii. allowed an analyst to purchase warrants, at a discount, from an issuer he covered within two days following the issuance of a research report on that issuer, in violation of NASD Rules 2711(g)(2), 2711(d), and 2110;
 - viii. failed to ensure that two research reports contained the analyst certifications required by Regulation AC, in violation of Regulation AC and NASD Rule 2110.
2. During the period of May 2001, to March 2004, Tejas, acting through Durant, failed to ensure that all principals of the firm were appropriately registered, in violation of NASD Rules 3010 and 2110.
3. Tejas, acting through Durant:
 - i. failed to establish a system to maintain and preserve all e-mails from January 2001 to April 2003, in violation of Securities Exchange Act ("SEA") Rule 17a-4(f) and NASD Rules 3110 and 2110;
 - ii. failed to maintain e-mails from October 2002 to June 2003, in violation of SEA Rule 17a-4(b)(4), and NASD Rules 3110 and 2110;
 - iii. failed to implement a system to monitor, archive and retrieve instant messages from January 2002 to August 2003, in violation of SEA Rule 17a-4(b)(4), and NASD Rules 3110 and 2110;
 - iv. failed to evidence review of e-mails from June 2003, to December 2003, in violation of NASD Rules 3010 and 2110, and failed to review e-mails from March 2004, through May 2004, in violation of NASD Rules 3010 and 2110;
 - v. failed to provide notification of retention of electronic correspondence by means of electronic storage media in violation of 17a-4(f)(2)(i) and NASD Rule 2110; and failed to implement an adequate supervisory system, including procedures, to ensure review of e-mails and instant messages, in violation of NASD Rules 3010 and 2110.

4. Tejas failed to report timely 18 corporate bond trades through TRACE from August 2003 through October 2003, in violation of NASD Rules 6230(a) and 2110. Further, Tejas failed to accurately report the execution time and/or quantity or price in 20 instances, in violation of NASD Rules 6230(c) and 2110.
 5. During 2003, Tejas, acting through Durant, failed to maintain records evidencing that the firm prepared a written needs analysis and training plan for the firm element of the continuing education program, and that such training was completed by covered persons in 2003, in violation of NASD Rules 1120(b)(2)(C), 2110 and 3110.
 6. From August through October 2003, Tejas failed to timestamp seventeen order tickets for municipal trades with the time of receipt, entry, and execution, and failed to maintain two order tickets for municipal trades, in violation of MSRB Rule G-8(a)(vii) and SEA Rule 17a-3(a)(6).
 7. During March through May 2004, Tejas failed to reflect all required information on order tickets in violation of SEA Rules 17a-3, 17a-4, and NASD Rules 3110 and 2110. Specifically, on 61 of 82 tickets reviewed, Tejas failed to reflect the time of receipt of the order. Additionally, 15 tickets did not reflect capacity (principal or agency), 13 did not reflect long or short status, 4 did not reflect time of entry, and 2 did not reflect time of execution.
3. We also consent to the imposition, at a maximum, of the following sanctions:

Tejas Securities Group, Inc. shall be fined \$225,000 and censured.

Arnold Reed Durant shall be barred in all principal and supervisory capacities, and fined \$10,000.

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

III.

OTHER MATTERS

- A. We understand that we may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. We understand that we 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. We agree to pay any monetary sanctions imposed on us 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 we propose to pay any fine imposed.

- C. We specifically and voluntarily waive any right to claim that we are unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

We certify that we have read and understand all of the provisions of this AWC and 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 us to submit it.

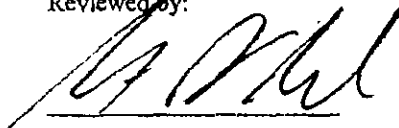
11/15/05
Date


Tejas Securities Group, Inc., Respondent

By: KURT RECHNER, PRESIDENT and Co.O.
[Print Name and title]

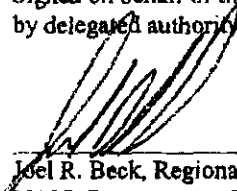

Arnold Reed Durant, Respondent

Reviewed by:


Counsel for Respondents
Steven J. Intel
Accepted by NASD:

11/30/2005
Date

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


Joel R. Beck, Regional Counsel
NASD Department of Enforcement
3490 Piedmont Road, Suite 500
Atlanta, GA 30305
(404) 239-6100