

**Disciplinary Panel
American Stock Exchange LLC**

IN THE MATTER
OF
WILLIAM JAMES BAYLIN, JR.

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: Case No. 05-112
: [AMXC07012]
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: Hearing Officer – DMF
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: **DECISION**
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: July 20, 2007
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In accordance with a Stipulation of Facts and Consent to Penalty, the Disciplinary Panel Chair determined that Respondent violated Exchange Rule 923(a) and (b), as stipulated, and as a penalty imposed a 90-day suspension from employment or association in any capacity with an Exchange Member or Member Organization.

I. Introduction

The American Stock Exchange, LLC (Exchange) instituted a formal disciplinary proceeding against William James Baylin, Jr., a former employee of A.G. Edwards & Sons, Inc. (the Firm), a former Regular Member Organization of the Exchange. The Disciplinary Panel Chair, presiding without convening a full Disciplinary Panel, pursuant to Article V, Section 1(b) of the Exchange Constitution, held a hearing on July 10, 2007, pursuant to Article V, Section 2 of the Exchange Constitution, to review a Stipulation of Facts and Consent to Penalty (Stipulation), which is attached as Exhibit A. The Exchange and Baylin entered into the Stipulation for the purposes of settling this proceeding and concluding all disciplinary actions by the Exchange against Baylin based upon or arising out of the facts set forth in the Stipulation.

II. Facts

Baylin, without admitting or denying liability, stipulated to the facts set forth in the attached Stipulation. The Chair has determined to accept the facts for purposes of this Decision, and they are incorporated herein.

III. Violations

Based on the stipulated facts, the Chair concludes that Respondent Baylin violated Exchange Rule 923(a) and (b) in that he recommended and effected three options transactions in a guardianship account opened by Customer A on behalf of his son, Customer B, that were unsuitable for the customers and also ran contrary to the Firm's Sales Practice Manual procedures, as set forth in paragraphs 3.1 through 3.9 of the Stipulation.

IV. Penalties and Publicity

The Stipulation proposes that the Chair impose on Respondent Baylin a 90-day suspension from employment or association in any capacity with any Exchange Member or Member Organization.

The Chair carefully considered the stipulated facts, as well as the decisions set forth in the Exchange's precedent memorandum and the statements and representations of the parties during the hearing. There are no directly applicable Exchange Sanction Guidelines, but the Chair reviewed the General Principles Applicable to All Sanction Determinations and the Principle Considerations in Determining Sanctions set forth in the Exchange's Sanction Guidelines in considering whether the proposed penalty was appropriate.

The Chair noted that Respondent has no prior disciplinary record; that during the hearing Respondent fully acknowledged and accepted responsibility for his conduct; that

Respondent's conduct involved only three transactions in a single account; that the transactions occurred between August 2000 and April 2001; and that Respondent has not been employed in the securities industry for the past five years. The Chair also noted that, according to the stipulated facts, Respondent's branch manager and the Firm approved the customer account in question for the type of options trading effected by Respondent, even though that was contrary to certain provisions of the Firm's Sales Practice Manual. Although this approval did not excuse Respondent's recommendation and effecting of unsuitable transactions, the Chair found it somewhat mitigating in evaluating the proposed penalty.¹

Accordingly, the Chair finds that the proposed penalty is appropriate under the particular facts and circumstances of this case, and therefore it will be imposed. The Chair further finds that the results of this disciplinary proceeding should be publicly disclosed, as provided in Rule 12 of the Exchange Rules on Disciplinary Proceedings.²

¹ During the hearing the Exchange represented that the customers obtained substantial recoveries through arbitration claims, so the Chair has no basis for concluding that an order of restitution to the customers is required in this case.

² Rule 12 exempts from publicity those cases in which the Panel finds that the offense "related solely to minor administrative requirements of the Exchange and does not materially affect the public interest or the interest of investors." That exemption does not apply to the facts of this case.

V. Conclusion

The Chair accepts the Stipulation of Facts and Consent to Penalty and hereby imposes on Respondent a 90-day suspension from employment or association in any capacity with any Exchange Member or Member Organization.

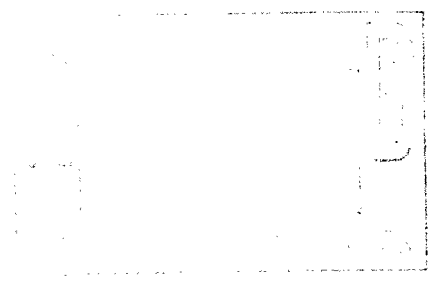
FOR THE DISCIPLINARY PANEL



David M. FitzGerald
Panel Chair

Copies to: William James Baylin, Jr. (*via overnight and first class mail*)
Charles Falgie, Esq. (*electronically and via first class mail*)
Arlene Collins-Day (*electronically and via first class mail*)

Disciplinary Panel
American Stock Exchange LLC



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IN THE MATTER X
OF X
WILLIAM JAMES BAYLIN, JR. X
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STIPULATION OF FACTS
AND
CONSENT TO PENALTY
Case No. 05-112

This proceeding was instituted by the American Stock Exchange LLC (“the Exchange”) against WILLIAM JAMES BAYLIN, JR. (“Baylin”) (CRD # 1062944), a former employee of A.G. EDWARDS & SONS, INC. (“Edwards” or the “Firm”) (CRD# 4), a former Regular Member organization of the Exchange. This Stipulation of Facts and Consent to Penalty is entered into with Baylin pursuant to Exchange Rule 345(k) in order to settle and conclude all disciplinary actions by the Exchange against Baylin based upon or arising out of the facts hereinafter stipulated. Baylin, without admitting or denying the facts, allegations and conclusions contained in this Stipulation of Facts and Consent to Penalty, hereby consents to the findings of violations of the Exchange Rules and to the imposition of the penalties hereinafter provided. Baylin understands that this settlement is subject to approval by an Exchange Disciplinary Panel and can be the subject of review by the Amex Adjudicatory Council (“AAC”) and that, if so approved, shall constitute a final decision, which may not be appealed by the parties. Baylin understands and acknowledges that the Disciplinary Panel’s decision in this matter will become part of his disciplinary record and may be considered in any future proceeding brought by the Exchange.

STIPULATED FACTS:

- 1.0 During all relevant periods herein, Edwards was a Regular Member organization of the Exchange.
- 1.1 During all relevant periods herein, Baylin was employed as a registered representative for Edwards in its San Diego, CA branch office.
- 2.0 During all relevant periods herein, Exchange Rule 923(a) provided that no member, member organization or registered employee thereof shall recommend to any customer any transaction for the purchase or sale (writing) of an option contract unless such member, member organization or registered employee has reasonable grounds to believe that the entire recommended transaction is not unsuitable for such customer on the basis of information furnished by such customer after reasonable inquiry concerning the customer's investment objectives, financial situation and needs, and any other information known by such member, member organization or registered employee.
- 2.1 During all relevant periods herein, Exchange Rule 923(b) provided that no member, member organization or registered employee thereof, shall recommend to a customer an opening transaction in any option contract unless the person making the recommendation has a reasonable basis for believing, at the time of ~~making~~ the recommendation, that the customer ~~has~~ such knowledge and ~~experience in financial matters that he may reasonably be expected to be capable~~

- of evaluating the risks of the recommended transaction, and is financially able to bear the risks of the recommended position in the option contract.
- 3.0 In December 1995, Customer A was appointed Guardian of his son, Customer B, a juvenile, pursuant to the California Probate Code (the "Code") and was provided with a letter of guardianship by the California Probate Court.
- 3.1 In January 1996, Customer A opened a guardianship account (the "Account"), with Customer B being the beneficiary of said account. Customer A opened the account with Baylin while Baylin was an employee of Firm A. The account was opened using \$63,000, the majority of which represented insurance proceeds received by Customer A upon the death of his wife in 1995. Customer A opened the account with the purpose of using the proceeds to fund Customer B's college education, a fact known to Baylin.
- 3.2 In March 1999, Baylin became an employee of Edwards, and Customer A transferred the guardianship account to the Firm. When the account was moved to Firm A, it had a net value of approximately \$45,000.
- 3.3 On or about March 26, 1999, Baylin filled out a new account form for the account of Customer A and Customer B. The information on the new account form, signed by both Customer A and Baylin, indicated that Customer A was employed as a welder, had an annual income of \$70,000, a total net worth of \$80,000, a liquid net worth of \$50,000, including \$10,000 in cash and \$40,000 in securities, and that the investment objective was "conservative growth."
- 3.4 On or about July 7, 1999, at Baylin's initiative and agreed upon by Customer A, another new account form was completed, without any change in Customer A's

financial wherewithal, changing the account's investment objective from "conservative growth" to "aggressive growth."

- 3.5 On or about August 2, 2000, another new account form was completed, without any change in Customer A's financial wherewithal, for the Account for the purpose of approving Customer A to trade options on behalf of Customer B. On or about August 10, 2000, the new account form was approved by Baylin and his Branch Office Manager ("BOM") Timothy Patrick Cronin.
- 3.6 The account of Customer A and Customer B was approved by Cronin and the Firm for trading options at what was described in Edwards' Branch Manager Manual (the "BM Manual") in place during the relevant period of time as Level C trading. Level C options trading included covered call writing, the purchase of equity and index put and call options, long straddles and combinations, and debit put and call spreads.
- 3.7 According to the Firm's Sales Practice Manual ("SP Manual"), to be approved to trade options at Level C, the customer must have an annual income of \$10,000, a liquid net worth of \$10,000, a total net worth of \$20,000 and "speculation" as one of the investment objectives. "Speculation," however, was not one of the investment objectives in the Account. Therefore, the approval given by Cronin and the Firm to trade options at Level C was in direct contradiction of the SP Manual.
- 3.8 Pursuant to the BM Manual, a BOM could not approve the opening of an account for a minor unless it was opened through a court-appointed guardian acting under the state's Uniform Gifts to Minors Act or Uniform Transfers to

Minors Act. Although the Account's opening was approved pursuant to the SP Manual's procedures, only Levels A and B options strategies were permitted by the SP Manual in custodial accounts (writing calls against long positions or purchasing puts to protect a position). According to the SP manual, the custodial nature of the Account prohibited Level C options trading, even if "speculation" had been one of Customer A's investment objectives.

3.9 Despite the provisions of the SP Manual, the Account was approved by Cronin and the Firm to trade options at Level C. Pursuant to Baylin's recommendation, Customer A agreed to purchase calls on three occasions in the Account between August 2000 and April 2001. These three naked call options positions were ultimately closed out, resulting in losses from the trades totaling \$11,929.14.

CONCLUSION:

By reason of the foregoing Stipulated Facts, a Disciplinary Panel may conclude that:

4.0 Baylin violated Exchange Rule 923(a) and (b) in that he recommended and effected unsuitable options transactions for Customers A and B, that also ran contrary to the Firm's procedures identified in the SP Manual, as stated in above paragraphs 3.1 through 3.9.

DISCIPLINARY ACTION:

A Disciplinary Panel may impose the following penalty upon Baylin:

- (a) a suspension of ninety (90) days from employment or association in any capacity with an Exchange member or member organization.

Baylin hereby acknowledges that he has read carefully this Stipulation and understands all of the provisions contained herein; that he has agreed to its provisions voluntarily; and that no offer, promise, threat or inducement of any kind has been tendered to Baylin by the Exchange, its staff or representatives to induce him to enter into this Stipulation, aside from the prospect of settling this disciplinary proceeding based on the terms and conditions set forth in this Stipulation rather than adjudicating this matter by way of a hearing on a Charge Memorandum as provided by Exchange rules.

Further, Baylin hereby agrees that he 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 Stipulation or create the impression that the Stipulation is without factual basis. Nothing in this provision affects Baylin's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which the Exchange is not a party.

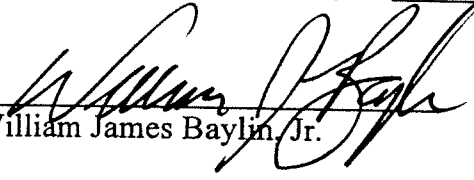
Finally, it is understood and agreed that in any written submission to or proceeding before any person or body convened to consider this Stipulation of Facts and Consent to Penalty (including to, a Hearing Officer acting alone, a Hearing Panel, or any reviewing body authorized by the Amex Constitution and/or Rules), neither Enforcement nor Baylin shall offer any argument that is inconsistent with the stipulated facts or the agreed-upon penalty, nor shall either party ask for the imposition of any penalty other than that agreed upon in this Stipulation of Facts and Consent to Penalty.

ON BEHALF OF THE
AMERICAN STOCK EXCHANGE LLC:

By: 

David Rosenstein
Senior Vice President and Chief Counsel
Enforcement Department
NASD Amex Regulation Division

Agreed to this 10 day of June, 2007.


William James Baylin, Jr.