

unsuitable for the customer and prohibited by the policies specified in Respondent A.G. Edwards' Branch Manager (BM) Manual and Sales Practice (SP) Manual, in violation of Exchange Rule 411; and (b) failed to enforce A.G. Edwards' procedures relating to the approval of the appropriate level of options trading in a customer account, as specified in Edwards' BM and SP Manuals, which resulted in the execution of unsuitable trades, in violation of Exchange Rule 922(a)(i).

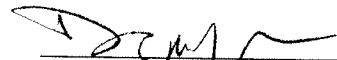
2. Respondent A.G. Edwards, during the period August 2000 through April 2001, failed to ensure adherence to the Firm's written supervisory procedures relating to the approval of the level of options trading in a customer account, and to Exchange Rules 411 and 922(a)(i), in violation of Exchange Rule 320.

With regard to the proposed penalties, the Hearing Officer noted the following mitigating circumstances: (1) the violations arise out of the approval of options trading in a single customer account in August 2000; (2) although Respondent Cronin failed to recognize that the account did not meet all of the requirements set forth in Edwards' BM and SP Manuals, a Compliance Registered Options Principal at the firm's headquarters also reviewed and mistakenly approved the account for options trading; (3) only three options trades were affected in the account, over a nine-month period; and (4) according to the Exchange's Memorandum, although the customers incurred approximately \$12,000 in losses as a result of the trades, they were reimbursed through an

arbitration settlement. The Stipulation does not set forth any aggravating circumstances.

Therefore, in accordance with the Stipulation, for these violations Respondent A.G. Edwards & Sons, Inc. is censured and fined \$5,000 and Respondent Timothy Patrick Cronin is censured.

SO ORDERED.

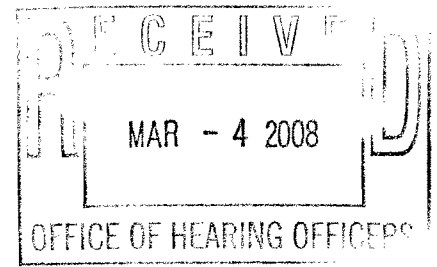


David M. FitzGerald
Hearing Officer

Copies to: Timothy P. Cronin (*via overnight and first-class mail*)
A.G. Edwards & Sons, Inc. (*via first-class mail*)
Clay Grumke, Esq. (*via overnight and first-class mail*)
Charles Falgie, Esq. (*via electronic mail*)
Jocelyn Thrower (*via electronic mail*)

EXHIBIT A

Disciplinary Panel
American Stock Exchange LLC



.....X
X
IN THE MATTER X
OF X
TIMOTHY PATRICK CRONIN X
AND X
A.G. EDWARDS & SONS, INC. X
X
.....X

STIPULATION OF FACTS
AND
CONSENT TO PENALTY
Case No. 05-112
STAR ID# 20050029753

This proceeding was instituted by the American Stock Exchange LLC (“the Exchange”) against TIMOTHY PATRICK CRONIN (“Cronin”) (CRD # 848261), an employee of A.G. EDWARDS & SONS, INC. (“Edwards” or the “Firm”) (CRD# 4), and against Edwards, a former Regular Member organization of the Exchange. This Stipulation of Facts and Consent to Penalty is entered into with Cronin pursuant to Exchange Rule 345(k), and with Edwards pursuant to Article V, Section 2 of the Exchange Constitution, in order to settle and conclude all disciplinary actions brought by the Exchange against Cronin and Edwards (“the Respondents”) based upon or arising out of the facts hereinafter stipulated. The Respondents, without admitting or denying the facts, allegations and conclusions contained in this Stipulation of Facts and Consent to Penalty, hereby consent to the findings of violations of the Exchange Rules and to the imposition of the penalties hereinafter provided. The Respondents understand that a hearing officer, without conducting a formal hearing, will determine whether the Respondents have committed the violations set forth herein and may fix and impose the agreed upon penalty or reject the Stipulation. This Stipulation can also be the subject of review by the Amex Adjudicatory Council (“AAC”). The Respondents understand and

acknowledge that the hearing officer's acceptance of this Stipulation may not be appealed by the parties, will become part of their disciplinary records 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, Cronin was employed as the Branch Office Manager ("BOM") for Edwards in its San Diego, CA branch office.

1.2 During all relevant periods herein, Cronin was subject to Exchange Rule 411, which provided, in relevant part:

Every member is required either personally or through a general partner, an officer or trustee of his organization to supervise diligently all accounts handled by an employee.

1.3 During all relevant periods herein, Cronin was subject to Exchange Rule 922(a)(i), which provided, in relevant part:

In addition to the requirements of Rule 411, every member organization shall develop, implement and enforce a written program to provide for the diligent supervision and review of all its customer accounts, and all orders in such accounts, relating to options contracts covering equity securities.

1.4 During all relevant periods herein, Edwards was subject to Exchange Rules 320(b) and (c), which provided, in relevant part:

(b) Each office, department or business activity of a member or member organization (including foreign incorporated branch offices) shall be under the supervision and control of the member or member organization establishing it and of the personnel delegated such authority and responsibility.

The person in charge of a group of employees shall reasonably discharge his duties and obligations in connection with supervision and control of

the activities of those employees related to the business of their employer including compliance with securities laws and regulations and Exchange rules.

(c) The general partners, directors, and trustees of each member or member organization shall provide for appropriate supervisory control and shall designate a general partner, principal executive officer, or trustee to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities laws and regulations and Exchange rules. This person shall: (1) delegate to qualified principals or employees responsibility and authority for supervision and control of each office, department or business activity, and provide for appropriate procedures of supervision and control; and (2) establish a separate system of follow-up and review to verify that the delegated authority and responsibility is being properly exercised.

- 2.0 During all relevant periods herein, Customer A, pursuant to the California Probate Code (the "Code"), was the court appointed custodian of Customer B, who was Customer A's son, and was provided with a letter of guardianship by the California Probate Court.
- 2.1 In January 1996, Customer A opened a guardianship account (the "Account") with Registered Representative ("Reg. Rep.") at another broker-dealer, with Customer B as the beneficiary of said account. 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, and it was intended to fund Customer B's college education.
- 2.2 In March 1999, Reg. Rep. C became an employee of Edwards, and Customer A transferred the Account to the Firm. On or about March 26, 1999, Reg. Rep. C filled out a new account form for the Account. The information on the new account form, signed by both Customer A and Reg. Rep. C, indicated that Customer A 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.”
- 2.3 On or about July 7, 1999, at Reg. Rep. C’s initiative, and agreed upon by Customer A, another new account form was completed, without any change in Customer A’s financial wherewithal; however, the account’s investment objective was changed from “conservative growth” to “aggressive growth.”
- 2.4 On or about August 2, 2000, an amended new account form was completed for the Account, signed by customer Reg. Rep. C and Customer A, and without any change in the customer’s financial wherewithal, enabling Customer A to trade options, including purchasing naked calls. On or about August 10, 2000, the amended new account form was approved by Cronin.
- 2.5 Cronin approved options trading in the Account at what was described in the Edwards’ Branch Manager Manual (the “BM Manual”) in place during the relevant time period, as Level C trading. Level C options trading included covered call writing, protected put purchases, the purchase of equity and index put and call options, long straddles and combinations, and debit put and call spreads.
- 2.6 According to the Edwards’ Sales Practice Manual (“SP Manual”) in place during the relevant period, to be approved to trade options at Level C, an Edwards’ customer needed 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 was not one of the investment objectives listed for the Account. Therefore, the approval given by Cronin to allow Level C options trading in the Account ran contrary to the Edwards’ SP Manual.

- 2.7 During the relevant period, because the Firm's SP Manual required a custodian to a minor to deal with the custodial property as a "prudent man" would deal with his/her own property, the only strategies permitted by Edwards' SP Manual in custodial accounts were writing calls against long positions and/or purchasing of puts to protect a position. These strategies were encompassed both by Edwards' Level A option trading, which allowed for covered call writing, and Level B option trading, which allowed for protected put purchases. Therefore, according to SP Manual, the custodial nature of the Account also prohibited Cronin from approving the account for Level C options trading.
- 2.8 During the relevant period, Edwards' Options Supervisory Procedures Manual ("OSP Manual") stated that a Firm Compliance Registered Options Principal ("CROP") was to review the opening of all options accounts.
- 2.9 Subsequent to the August 2, 2000 new account form being approved by Cronin for Level C options trading, the new account form was forwarded to Edwards' headquarters, located in St. Louis, MI.
- 2.10 Pursuant to the Firm's procedures which dictated that a Firm CROP was to review the opening of all option accounts, the August 2, 2000 new account form was reviewed by Firm CROP E, who worked out of the Firm's St. Louis headquarters.
- 2.11 On August 15, 2000, subsequent to Firm CROP E's review of the August 2, 2000 new account form, Firm CROP E sent Customer A correspondence, asking Customer A to review the form, and make changes, if necessary. It also stated that if no changes were made, then the Firm would assume that all information was correct.

- 2.12 The August 15, 2000 letter from Firm CROP E also approved Customer A for Level C option trading in the Account, despite the prohibitions against such approval that appeared in Edwards' SP Manual.
- 2.13 Pursuant to Reg. Rep. C's recommendation, Customer A agreed to purchase calls (Level C type trading) on three occasions. On August 10, 2000 a purchase for a total cost of \$4,244.44, on September 26, 2000 a purchase for a total cost of \$6,561.86, and on April 24, 2001 a purchase for a total cost of \$1,507.51. These purchases ultimately resulted in losses to Customer A totaling \$11,929.14.

CONCLUSION:

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

- 3.0 Cronin violated Exchange Rule 411 in that he failed to diligently supervise the Account when he approved the Account for options trading at a level unsuitable for the customer and prohibited by the policies specified in Edwards' BM Manual and SP Manual, as set forth in paragraphs 2.0 through 2.13.
- 3.1 Cronin violated Exchange Rule 922(a)(i) in that he failed to enforce the Firm's procedures relating to the approval of the appropriate level of options trading in Customer A's account as specified in Edwards' BM Manual and SP Manual, which ultimately resulted in the execution of unsuitable trades in the Account, as set forth in paragraphs 2.0 through 2.13.
- 3.2 Edwards violated Exchange Rule 320 during the period from August 2000 through April 2001, in that the Firm failed to ensure adherence to the Firm's written supervisory procedures relating to the approval of the level of options

trading in Customer A's account, and to Exchange Rules 411 and 922(a)(i), as described in above paragraphs 2.0 through 2.13.

DISCIPLINARY ACTION:

A Disciplinary Panel may impose the following penalty upon Cronin:

- (a) a censure.

A Disciplinary Panel may impose the following penalty upon Edwards:

- a) a censure; and,
- b) a fine of \$5,000.

The Respondents hereby acknowledge that they have read carefully this Stipulation and understand all of the provisions contained herein; that they have agreed to its provisions voluntarily; and that no offer, promise, threat or inducement of any kind has been tendered to the Respondents by the Exchange, its staff or representatives to induce them 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, the Respondents hereby agree that they 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 the Respondents' testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which the Exchange is not a party.

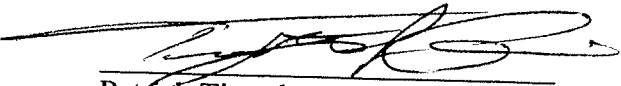
Further, the Respondents understand and agree that the Exchange may make a public announcement concerning this Stipulation and the subject matter thereof in a manner consistent with those specified in Rule 12 of the Rules and Procedures Applicable to Exchange Disciplinary Proceedings.

Finally, it is understood and agreed that in any written submission to or proceeding before any person reviewing and/or body convened to consider this Stipulation of Facts and Consent to Penalty (including to any reviewing person or body authorized by the Amex Constitution and/or Rules), neither Enforcement nor the Respondents 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 (including arguing that no penalty should be imposed) other than those agreed upon in this Stipulation of Facts and Consent to Penalty.

ON BEHALF OF THE
AMERICAN STOCK EXCHANGE LLC:

By: Claudia Crowley
Claudia Crowley
Senior Vice President
Chief Regulatory Officer
American Stock Exchange LLC

Agreed to this 7TH day of JANUARY, 2008.


Patrick Timothy Cronin

Agreed to this _____ day of _____, 2008.

On behalf of A.G. Edwards & Sons, Inc.

Further, the Respondents understand and agree that the Exchange may make a public announcement concerning this Stipulation and the subject matter thereof in a manner consistent with those specified in Rule 12 of the Rules and Procedures Applicable to Exchange Disciplinary Proceedings.

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ON BEHALF OF THE
AMERICAN STOCK EXCHANGE LLC:

By: Claudia Crowley
Claudia Crowley
Senior Vice President
Chief Regulatory Officer
American Stock Exchange LLC

Agreed to this 7TH day of JANUARY, 2008.

[Signature]
Patrick Timothy Cronin

Agreed to this 17 day of January, 2008.

[Signature]
On behalf of A.G. Edwards & Sons, Inc.

Jocelyn Thrower
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