

STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF: RANDALL C. PECK

FILE NO. 0201062

CONSENT ORDER OF CENSURE

TO THE RESPONDENT:

Randall C. Peck
(CRD#: 829170)
16326 Underwood Avenue
Omaha, Nebraska 68118

c/o David W. Minnick
Vice President and Counsel
A.G. Edwards & Sons, Inc.
One North Jefferson Avenue
Saint Louis, Missouri 63103

WHEREAS, Respondent on the 2nd day of May 2003 executed a certain Stipulation to Enter Consent Order of Censure ("Stipulation"), which hereby is incorporated by reference herein.

WHEREAS, by means of the Stipulation, Respondent has admitted to the jurisdiction of the Secretary of State and service of the Notice of Hearing of the Secretary of State, Securities Department, dated March 24, 2003, in this proceeding (the "Notice") and Respondent has consented to the entry of this Consent Order of Censure ("Consent Order").

WHEREAS, by means of the Stipulation, the Respondent acknowledges, while neither admitting nor denying the truth thereof, that the following allegations contained in the Notice of Hearing shall be adopted as the Secretary of State's Findings of Fact:

1. That at all relevant times, the Respondent was registered with the Secretary of State as a salesperson in the State of Illinois pursuant to Section 8 of the Act.
2. That on September 24, 2002 an Exchange Hearing Panel of the New York Stock Exchange Inc. (NYSE) by unanimous vote, accepted a Stipulation of Facts and Consent to Penalty entered into between the Exchange's Division of Enforcement

Consent Order of Censure

-2-

and the Respondent (Decision) in File No. 02-186 which imposed the following sanctions:

- a. censure;
- b. one month supervisory suspension;
- c. fine of \$3,000; and
- d. required that he complete an appropriate training course, involving supervision of fixed income products, as a prerequisite to resuming employment in a supervisory capacity.

3. That the Decision found:

- a. Arthur D. Elrod (Elrod) was born in May 1925. He entered the securities industry in 1977 as a stock trainee with a Firm A. In 1978, Elrod joined the Firm, a member organization, as a stock trainee and was approved by the Exchange as a registered representative in May 1978. From May 1978 to present and at all relevant times, Elrod has been employed by the Firm as a registered representative in the Firm's branch office in Omaha, Nebraska (the "Branch").
- b. The Respondent was born in August 1953. He entered the securities industry in July 1976 when he commenced employment with Firm B and was approved by the Exchange as a registered representative in October 1976. He remained at Firm B until June 1980 and was thereafter employed in the securities industry as follows:

Dates	Firm
6/80-9/83	Firm C
9/83-12/86	Firm D
1/87-12/90	Firm E

In December 1990, he became employed by the Firm as a registered representative, where he is currently employed. In or about July 1991, he became Series 8 registered and, shortly thereafter, was made an assistant branch office manager of the Branch. In or about 1994, he was made branch office manager of the Branch.

- c. In or about April 1999, the Exchange's Division of Member Firm Regulation ("MFR") conducted a supervisory standards/sales practice examination of the Firm and issued a report of the exceptions noted by MFR including certain exceptions involving the activities of Elrod and the Respondent. In or about September 1999, MFR referred to Enforcement its examination report of the Firm. Thereafter, Enforcement conducted an

Consent Order of Censure

-3-

investigation into, among other things, the activities of Elrod and the Respondent as noted in the 1999 examination report.

- d. During Enforcement's investigation, Elrod and the Respondent, represented by counsel, appeared and testified in connection with the investigation.
- e. During the period of August 1996 through May 1997, on various occasions, Elrod solicited and recommended the purchase of a speculative, high-yield bond which was unsuitable in various customer accounts in view of the age, investment experience, investment objectives, and financial resources of such customers. The Respondent, in his capacity as branch office manager, failed to supervise certain customer accounts handled by Elrod, as set forth below.
- f. During the ten-month period of August 1996 through May 1997 (the "Relevant Period"), Elrod solicited and recommended the purchase of XYZ 9.125% 4-15-03 Senior Subordinate Notes (the "XYZ Bonds"), a speculative, high-yield bond, rated below investment grade, in the accounts of approximately 147 customers at an aggregate total cost of approximately \$4.2 million. Elrod acknowledges that the recommendation to purchase XYZ Bonds was the single largest broad-based recommendation he made during his tenure at the Firm.
- g. The XYZ Bonds were not followed by the Firm's research department. Elrod maintained a research file on XYZ Bonds.
- h. The XYZ Bonds were issued in April 1993 by XYZ, a retailer of lumber, building materials and home improvement products. The XYZ Bonds traded on the Exchange until July 1997. Interest on the XYZ Bonds was payable on April 15 and October 15 of each calendar year.
- i. Most of the approximately 147 customers who purchased XYZ Bonds on Elrod's recommendation were elderly, with limited financial resources, were not sophisticated investors and relied on Elrod. Many of the approximately 147 customers solicited to purchase XYZ Bonds had primary investment objectives of "safety of principal", "growth" or "income."
- j. Upon Elrod's recommendation, 19 of the customer accounts invested the accounts total equity in XYZ Bonds, and 49 of the customer accounts had concentrated positions of 50% or greater of the account's total equity in XYZ Bonds.
- k. During the period of Elrod's solicitation of the XYZ Bonds, the value of the bonds fell precipitously in November 1996 and December 1996,

Consent Order of Censure

-4-

following two bond rating agency downgrades. Despite the downgrades and the steep decline in price, Elrod continued to recommend the purchase of XYZ Bonds and/or advised customers to continue to hold existing positions and not sell the XYZ Bonds.

- l. In May 1997, the Branch requested a research opinion from the Firm's fixed income research department. In a report dated May 15 1997, the Firm described the XYZ Bonds as "highly speculative" with expectations that the price of the bonds would continue to deteriorate.
- m. Thereafter, on or about July 8, 1997, a condensed version of the Firm's research report was sent to Elrod's customers. On or about July 21, 1997, XYZ filed for bankruptcy protection and thereafter in October 1997 defaulted on its interest payments.
- n. The XYZ Bonds were not priced on most customer monthly account statements until July 1997. By July 1997, the price of the XYZ Bonds had fallen from an average purchase price of \$65 to approximately \$15 per value per bond.
- o. At all times relevant herein, price quotations for the XYZ Bonds were published and available in the Wall Street Journal and other publications.
- p. Elrod's recommendation of XYZ Bonds was unsuitable for various customer accounts, including those described below, in view of the customer's investment experience, investment objectives, financial resources and the concentration levels of the XYZ Bonds in the customer's account.
- q. Elrod's unsuitable recommendation harmed customers, including but not limited to the following customers described below as examples, who suffered financial loss.
- r. In November 1991, LW, a telemarketer born in 1927, opened an account with the Firm which was handled by Elrod (the "LW Account"). At or about the time the account was opened, LW advised Elrod that his primary source of income was from social security and that he could not afford to lose his investment or incur a great deal of risk in the account.
- s. According to the new account documents completed for the LW Account, LW's investment objectives were reported, in order of priority, as "safely of principal," "income" and "growth." His investment experience is described as 50 years in CDs. According to LW, his net worth was approximately \$70,000.

Consent Order of Censure

-5-

- t. In October 1996, on Elrod's recommendation, LW invested approximately \$35,000 in XYZ Bonds. The XYZ bond purchase represented 100% of the net equity in the LW Account.
- u. LW's approximately \$35,000 investment in the XYZ Bonds is currently worthless.
- v. The LW Account was concentrated in a speculative corporate bond which was unsuitable in view of the customer's investment objectives, investment experience and financial resources.
- w. In July 1982, DR, a retired clerk born in 1921, opened an account with the Firm which Elrod handled (the "DR Account"). According to the new account documents completed for the DR Account, DR's investment objectives are described, in order of priority, as "safety of principal," "income," and "growth" with a net worth of \$75,000 and annual income of \$26,000.
- x. In August 1996, upon Elrod's recommendation, DR invested approximately \$18,000 in XYZ Bonds. In January 1997, on Elrod's recommendation, Dr increased her position in the XYZ Bonds, investing an additional approximately \$28,000 in the account. The total XYZ purchases of \$46,000 represented an aggregate total of approximately 72% of the net equity in the DR Account.
- y. Dr's approximately \$46,000 investment in the XYZ Bonds is currently worthless.
- z. The DR Account was concentrated in a speculative corporate bond which was unsuitable in view of the customer's investment objectives, investment experience and financial resources.
- aa. In June 1991, FS, a retired clerk born in 1929, opened an account with the Firm which was handled by Elrod (the "FS Account"). According to the new account documents completed for the FS Account, FS' annual income was approximately \$19,000 and her net worth was \$140,000. FS' investment objectives are recorded on the new account documents, in order of priority, as "growth" and "income." FS is described as having 15 years investment experience in stocks and bonds and 34 years investment experience in certificates of deposit ("CDs").
- bb. In August 1996, on Elrod's recommendation, FS invested approximately \$20,000 in XYZ Bonds. In March 1997, on Elrod's recommendation, FS increased the size of her position in XYZ Bonds by investing an additional \$12,000 in the bonds. The XYZ purchases represented approximately 70% of the net equity in the FS Account.

Consent Order of Censure

-6-

- cc. FS' approximately \$32,000 investment in the XYZ Bonds is currently worthless.
- dd. The FS Account was concentrated in a speculative corporate bond which was unsuitable in view of the customer's investment objectives, investment experience and financial resources.
- ee. In or about July 1988, JO, a construction laborer born in 1942, opened an account with the Firm which was handled by Elrod (the "JO Account"). According to the new account documents completed for the Jo Account, Jo's primary and sole investment objective was "Growth," with a net worth of approximately \$50,000 and annual income of \$16,000. At the time the account was opened, JO had 6 years of investment experience in stocks and bonds.
- ff. On or about October 4, 1996, on Elrod's recommendation, JO invested approximately \$41,400 in XYZ Bonds. With the exception of a small money market position, the XYZ purchase represented approximately 100% of the net equity in the JO Account.
- gg. JO's approximately \$41,400 investment in the XYZ Bonds is currently worthless.
- hh. The JO Account was concentrated in a speculative corporate bond which was unsuitable in view of the customer's investment objectives, investment experience and financial resources.
- ii. In April 1986, J and EA, an office clerk and a homemaker born in 1936, opened an account with the Firm which Elrod handled (the "As Account").
- jj. According to the new account documents, J and EA had a combined net worth of approximately \$150,000 with an annual income of \$25,000 and 15 years investment experience in stocks and bonds. According to updated new account documents completed for the As Account in August 1995, the As' investment objectives are described, in order of priority, as "income" and "growth."
- kk. In January 1997, upon Elrod's recommendation, the As invested approximately \$30,000 in XYZ Bonds. The XYZ purchases represented approximately 98% of the net equity in the As Account.
- ll. The As' approximately \$30,000 investment in the XYZ Bonds is currently worthless.

Consent Order of Censure

-7-

- mm. The As' Account was concentrated in a speculative corporate bond which was unsuitable in view of the customers' investment objectives, investment experience and financial resources.
- nn. During the Relevant Period, the Respondent was responsible for the supervision of Elrod and customer accounts handled by Elrod.
- oo. During the Relevant Period, the Firm had procedures in place requiring that the Respondent review customer account activity on a quarterly basis to identify, among other things, unusual trading activity, including concentration of purchases or sales in a particular security, suitability of investments, and significant losses. In addition, he, as branch office manager, was required to conduct a daily review of a trade run for the Branch which identified all trading in accounts, including bond transactions, for the prior day.
- pp. During the Relevant Period, the Respondent reviewed order tickets on a daily basis, reviewed new account forms and reviewed monthly and reviewed monthly and quarterly reports involving trading activity at the Branch.
- qq. During the Relevant Period, the Respondent did not conduct a review of XYZ bond positions in Elrod's customer accounts. He did not review Elrod's customer accounts to identify concentration levels or suitability of such purchases of XYZ Bonds. Further, he did not discuss with Elrod the XYZ bond positions in the Context of the financial profiles and investment objectives of the customer accounts. He did not review Elrod's research file on XYZ Bonds.
- rr. The XYZ Bonds were downgraded in November and December 1996. It was not until May 1997 that the respondent spoke with Elrod about his broad-based recommendation of the XYZ Bonds and requested a research opinion from the Firm's fixed income research department. In a May 15, 1997 report, the Firm described the XYZ Bonds as "highly speculative" with expectations that the price of the bonds would continue to deteriorate.
- ss. In early July 1997, a condensed report of the Firm's research opinion on XYZ Bonds was sent to Elrod's customers. On or about July 21, 1997, XYZ filed for bankruptcy protection and thereafter defaulted on its interest payments.
- tt. As a result of the information available to the Respondent regarding Elrod's recommendation of the XYZ Bonds, the size and the speculative nature of the bond positions recommended by Elrod, he had sufficient information as to the nature of the bond transactions effected in the customer accounts to require further inquiry because the recommendation

Consent Order of Censure

-8-

of such large and concentrated positions in XYZ Bonds appeared inconsistent with the financial profile and investment objectives of numerous customer accounts.

- uu. Nevertheless, the Respondent did not contact the customers, either personally or by letter, to assess customer suitability in connection with the purchases of the XYZ Bonds.
 - vv. During the Relevant Period, the Respondent did not supervise reasonably and diligently the customer accounts handled by Elrod with respect to the XYZ transactions.
 - ww. Based upon information available to the Respondent, further supervisory review was needed in order to detect and prevent violative activity in Elrod's customer accounts.
 - xx. In summary, during the Relevant Period, the Respondent did not supervise reasonably and diligently certain customer accounts handled by Elrod in that (a) he did not question, discuss or make adequate inquiry of Elrod about the suitability of the XYZ bond purchases in the customer accounts; and/or (b) did not take any action to correct the unsuitable recommendation and purchase of XYZ Bonds in the customers' accounts; and/or (c) did not contact the customers to ascertain whether the XYZ bond purchase was suitable for the customers in view of each of their age, financial resources and investment objectives.
 - yy. That by virtue of the foregoing, the Respondent:
 - (a) Violated Exchange Rule 342 by failing to reasonably discharge his duties and obligations in connection with the supervision and control of the activities of a registered representative of his member organization employer; and
 - (b) Violated Exchange Rule 405(2) in that, in his capacity as a branch office manager, he failed to supervise diligently one or more accounts handled by a registered representative of his member organization employer.
4. That Section 8.E (1)(e)(iv) of the Act provides, inter alia, that the registration of a salesperson may be revoked if the Secretary of State finds that such salesperson has failed to maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of its salespersons that are reasonably designed to achieve compliance with applicable securities laws and regulations.

Consent Order of Censure

-9-

WHEREAS, by means of the Stipulation Respondent has acknowledged, without admitting or denying the averments, that the following shall be adopted as the Secretary of State's Conclusion of Law:

That by virtue of the foregoing, the Respondent's registration as a salesperson in the State of Illinois is subject to revocation pursuant to Section 8.E(1)(e)(iv) of the Act.

WHEREAS, by means of the Stipulation Respondent has acknowledged and agree that:

1. He shall be censured;
2. He will not act in the capacity of Designated Illinois Principal; and
3. He shall pay the sum of Five Hundred dollars (\$500.00) to the Office of the Secretary of State, Investors Education Fund as reimbursement to cover the cost of investigation of this matter. Said sum shall be payable by means of certified or cashier's check and made to the order of the Secretary of State, Investors Education Fund and shall be due within thirty (30) days from the entry of the Consent Order.

WHEREAS, the Secretary of State, by and through his duly authorized representative, has determined that the matter related to the aforesaid formal hearing may be dismissed without further proceedings.

NOW THEREFORE IT SHALL BE AND IS HEREBY ORDERED:

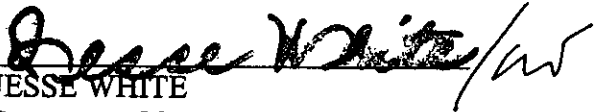
1. Randall C. Peck shall be censured.
2. Randall C. Peck shall not act in the capacity of Designated Illinois Principal.
3. Randall C. Peck shall pay the sum of Five Hundred dollars (\$500.00) to the Office of the Secretary of State, Investors Education Fund as reimbursement to cover the cost of investigation of this matter. Said sum shall be payable by means of certified or cashier's check and made to the order of the Secretary of State, Investors Education Fund and shall be due within thirty (30) days from the entry of the Consent Order.

Consent Order of Censure

-10-

4. The formal hearing scheduled on this matter is hereby dismissed without further proceedings.

ENTERED: This 12th day of May 2003.


JESSE WHITE
Secretary of State
State of Illinois

NOTICE: Failure to comply with the terms of this Order shall be a violation of Section 12.D of the Illinois Securities Law of 1953 [815 ILCS 5] (the Act). Any person or entity who fails to comply with the terms of this Order of the Secretary of State, having knowledge of the existence of this Order, shall be guilty of a Class 4 felony.