

STATE OF ILLINOIS  
SECRETARY OF STATE  
SECURITIES DEPARTMENT

IN THE MATTER OF: ARTHUR D. ELROD

FILE NO. 0201041

CONSENT ORDER OF REVOCATION

TO THE RESPONDENT:

Arthur D. Elrod  
(CRD#: 855027)  
1504 South 97th  
Omaha, Nebraska 68124

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 5th day of May 2003 executed a certain Stipulation to Enter Consent Order of Revocation (the "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 12, 2003, in this proceeding (the "Notice") and Respondent has consented to the entry of this Consent Order of Revocation ("Consent Order").

WHEREAS, by means of the Stipulation, the Respondent acknowledged, 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 during 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) accepted a Stipulation of Facts and Consent to Penalty entered into between the Exchange's Division of Enforcement and the

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Respondent (Decision) in File No. 02-185 which imposed the following sanctions:

- a. censure
  - b. suspension for a period of three months from membership, allied membership, approved person status, and from employment or association in any capacity with any member or member organization;
  - c. fine of \$5,000; and
  - d. requirement to be subject to appropriate enhanced supervision by his member firm employer for a period of one year subsequent to the completion of the above mentioned suspension.
3. That the Decision found by unanimous vote of the Hearing Panel:
- a. The Respondent was born in May 1925. He entered the securities industry in 1977 as a stock trainee with Firm A. In 1978, the Respondent joined the Firm, a member organization, as 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, the Respondent has been employed by the Firm as a registered representative in the Firm's branch office in Omaha, Nebraska (the "Branch").
  - b. 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 the Respondent and another individual. In or about September 1999, MFR referred to Enforcement its examination report of the Firm. Thereafter, Enforcement conducted an investigation into, among other things, the activities of the Respondent and this other individual as noted in the 1999 examination report.
  - c. During Enforcement's investigation, the Respondent and this other individual, represented by counsel, appeared and testified in connection with the investigation.
  - d. During the period of August 1996 through May 1997, on various occasions, the Respondent 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.

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- e. During the ten-month period of August 1996 through May 1997 (the "Relevant Period"), the Respondent 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. The Respondent acknowledges that the recommendation to purchase XYZ Bonds was the single largest-based recommendation he made during his tenure at the Firm.
- f. The XYZ Bonds were not followed by the Firm's research department. The Respondent maintained a research file on XYZ Bonds.
- g. 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.
- h. Most of the approximately 147 customers who purchased XYZ Bonds on the Respondent's recommendation were elderly, with limited financial resources, were not sophisticated investors and relied on the Respondent. Many of the approximately 147 customers solicited to purchase XYZ Bonds had primary investment objectives of "safety of principal", "growth" or "income."
- i. Upon the Respondent's recommendation, 19 of the customer accounts invested the account's 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.
- j. During the period of the Respondent's solicitation of the XYZ Bonds, the Value of the bonds fell precipitously in November 1996 and December 1996, following two bond rating agency downgrades. Despite the downgrades and the steep decline in price, the Respondent continued to recommend the purchase of XYZ Bonds and/or advised customers to continue to hold existing positions and not sell the XYZ Bonds.
- k. 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.
- l. Thereafter, on or about July 8, 1997, a condensed version of the Firm's research report was sent to the Respondent's customers. On or about July 21, 1997, XYZ filed for bankruptcy protection and thereafter on October 1997 defaulted on its interest payments.

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- m. 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.
- n. At all times relevant herein, price quotations for the XYZ Bonds were published and available in the Wall Street Journal and other publications.
- o. The Respondent'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.
- p. The Respondent's unsuitable recommendations harmed customers, including but not limited to the following customers described below as examples, who suffered financial loss.

### EXAMPLES OF CUSTOMER ACCOUNTS

- q. In November 1991, LW. A telemarketer born in 1927, opened an account with the Firm which was handled by the Respondent (the "LW Account"). At or about the time the account was opened, LW advised the Respondent 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.
- r. According to the new account documents completed for the LW Account, LW's investment objectives were reported, in order of priority, as "safety 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.
- s. In October 1996, on the Respondent's recommendation, LW invested approximately \$35,000 in XYZ Bonds. The XYZ bond purchase represented 100% of the net equity in the LW Account.
- t. LW's approximately \$35,000 investment in the XYZ Bonds is currently worthless.
- u. 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.
- v. In July 1982, DR, a retired clerk born in 1921, opened an account with the Firm which the Respondent handled (the "DR Account"). According to

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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.

- w. In August 1996, upon the Respondent's recommendation, DR invested approximately \$18,000 in XYZ Bonds. In January 1997, on the Respondent'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.
- x. DR's approximately \$46,000 investment in the XYZ Bonds is currently worthless.
- y. 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.
- z. In June 1991, FS, a retired clerk born in 1929, opened an account with the Firm which was handled by the Respondent (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").
- aa. In August 1996, on the Respondent's recommendation, FS invested approximately \$20,000 in XYZ Bonds. In March 1997, on the Respondent'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.
- bb. FS' approximately \$32,000 investment in the XYZ Bonds is currently worthless.
- cc. 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.
- dd. In or about July 1988, JO, a construction laborer born in 1942, opened an account with the Firm which was handled by the Respondent (the "JO Account"). According to the new account documents completed for the JO Account, JO's primary and sole investment objective was "Growth,"

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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.

- ee. On or about October 4, 1996, on the Respondent'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.
  - ff. JO's approximately \$41,400 investment in the XYZ Bonds is currently worthless.
  - gg. 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.
  - hh. In April 1986, J and EA, an office clerk and a homemaker born in 1936, opened an account with the Firm which the Respondent handled (the "As Account").
  - ii. 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."
  - jj. In January 1997, upon the Respondent's recommendation, the As invested approximately \$30,000 in XYZ Bonds. The XYZ purchase represented approximately 98% of the net equity in the As Account.
  - kk. The As' approximately \$30,000 investment in the XYZ Bonds is currently worthless.
  - ll. 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.
  - mm. That by virtue of the foregoing, the Respondent engaged in conduct inconsistent with just and equitable principles of trade in that he effected transactions in customer accounts of his member organization employer that were unsuitable in view of the customers' age, investment experience, investment objectives and financial resources.
4. That Section 8.E(1)(j) of the Act provides, inter alia, that the registration of a salesperson may be revoked if the Secretary of State finds that such salesperson

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has been suspended by any self-regulatory organization registered under the Federal 1934 Act or the Federal 1974 Act arising from any fraudulent or deceptive act or a practice in violation of any rule, regulation or standard duly promulgated by the self-regulatory organization.

5. That the NYSE is a self-regulatory organization as specified in Section 8.E(1)(j) of the Act.
6. 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)(j) of the Act.

WHEREAS, by means of the Stipulation Respondent as 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)(j) of the Act.

WHEREAS, by means of the Stipulation Respondent has acknowledged and agreed that his registration as a salesperson in the State of Illinois shall be revoked.

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 THAT:

1. Arthur D. Elrod's registration as a salesperson in the State of Illinois shall be revoked.
2. The formal hearing scheduled on this matter is hereby dismissed without further proceedings.

ENTERED: This 12<sup>th</sup> day of May, 2003.



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JESSE WHITE  
Secretary of State  
State of Illinois