

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT

20050001631-02

TO: Department of Market Regulation
NASD

RE: A.G. Edwards & Sons, Inc., Respondent
Broker Dealer
CRD No. 4

Pursuant to Rule 9216 of NASD Code of Procedure, A.G. Edwards & Sons, Inc. ("AGED" or "the firm") submits 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 AGED alleging violations based on the same factual findings.

AGED understands 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 Market Regulation and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs, 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 AGED; and
3. If accepted:
 - a. this AWC will become part of AGED's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against AGED;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about AGED's 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. AGED 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 AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects AGED's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

AGED also understands that its 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 relevant disciplinary history are as follows:

AGED entered the securities industry on August 28, 1939 as a member of NASD and its registration remains effective.

On July 21, 2004, NASD accepted an AWC that found that AGED violated MSRB Rules G-17 and G-30(a) when the firm failed to ensure that certain transactions with customers between July 2002 and May 2003 were executed at prices that were fair and reasonable. NASD imposed sanctions of a censure, a fine of \$5,000 and restitution of \$4,549.90.

I.

WAIVER OF PROCEDURAL RIGHTS

AGED specifically and voluntarily waives the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against AGED;
- 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, AGED specifically and voluntarily waives 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.

AGED further specifically and voluntarily waives 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

In connection with 20050001631 (formerly MRD200238203), the staff of the Market Regulation Department of NASD (the "staff") conducted a review of AGED's compliance with NASD Conduct Rule 2320 during the period October 1, 2002 through October 28, 2002 (the "review period").

- A. AGED hereby accepts and consents, without admitting or denying the 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. In 15 odd-lot purchases from customers in Georgia-Pacific Corporation 8.875% bonds due 5/15/2031 ("GP 31"), described in Exhibit A, AGED failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions. The 15 odd-lot transactions ranged in price from 57 to 60 per bond. As a result, AGED's customers were disadvantaged \$17,017.50.
 2. During the review period, Georgia-Pacific Corporation credit was downgraded from investment grade to below investment grade and prices of GP 31 were not publicly displayed in that there was no TRACE information for such securities. Unbeknownst to AGED during the review period, there were approximately 121 odd-lot and round-lot transactions in GP 31, priced between 62.50 and 75.55 per bond not involving AGED.
 3. The conduct described in paragraph one, and in light of paragraph two, constitutes separate and distinct violations of NASD Conduct Rules 2110 and 2320.

4. AGED failed to establish and maintain a system, for AGED's Fixed Income Department, to supervise the activities of its associated persons that was reasonably designed to achieve compliance with applicable securities laws and regulations, and with the Rules of this Association concerning best execution of debt securities.
 5. AGED failed to establish, maintain and enforce written procedures, for AGED's Fixed Income Department, to supervise the types of business in which it engaged and to supervise the activities of its associated persons that were reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of this Association. During the review period, AGED was in the process of enhancing and supplementing its policies and procedures, and such policies and procedures were reduced to writing shortly after the review period.
 6. The conduct described in paragraphs four and five constitutes violations of NASD Conduct Rules 2110 and 3010.
 7. AGED failed to register two individuals as principals of the firm when each was actively engaged in the management of AGED's securities business as supervisors.
 8. The conduct described in paragraph seven constitutes a violation of NASD Conduct Rule 2110 and NASD Membership and Registration Rule 1021.
- B. AGED also consents to the imposition, at a maximum, of the following sanctions:

A censure and a fine of \$125,000. Restitution shall be paid by Respondent to the parties involved in the transactions described on Exhibit A ("the Recipients") in the total amount of \$17,017.50, plus interest at the rate set forth in Section 6621(a) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from the date of the violative conduct until the date this Letter of Acceptance, Waiver and Consent is accepted by the National Adjudicatory Council.

A registered principal of the firm shall submit satisfactory proof of payment of the restitution, or of reasonable and documented efforts undertaken to effect restitution, to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850 no later than 120 days after acceptance of this Letter of Acceptance, Waiver and Consent.

If for any reason, Respondent cannot locate any Recipient after reasonable and documented efforts within such period, or such additional period agreed to by the staff, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed-property or abandoned-property fund for the state in which the Recipient last resided.

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

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III.

OTHER MATTERS

- A. AGED understands that AGED may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. AGED understands that AGED 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. AGED agrees to pay any monetary sanctions imposed on AGED upon notice that this AWC has been accepted and that such payments are due and payable and has attached an Election of Payment form showing the method by which AGED proposes to pay any fine imposed.
- C. AGED specifically and voluntarily waives any right to claim that AGED is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matte

A.G. Edwards & Sons, Inc. certifies that A.G. Edwards & Sons, Inc. has read and understands all of the provisions of this AWC and has 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 A.G. Edwards & Sons, Inc. to submit it.

June 1, 2006
Date

A.G. Edwards & Sons, Inc.
Respondent

By: [Signature]

Name: Stephen G. Sneeringer

Title: Senior V.P. & Counsel

Reviewed by:

[Signature]
Counsel for Respondent

Accepted by NASD:

7/25/06
Date

Thomas R. Gira
Thomas R. Gira
Executive Vice President and Deputy
Department of Market Regulation

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