



REGULATORY INFORMATION BULLETIN

RB-02-08
December 11, 2002

TO: ALL MEMBERS, MEMBER ORGANIZATIONS AND ETP HOLDERS

FROM: ENFORCEMENT DEPARTMENT

SUBJECT: DISCIPLINARY SANCTIONS IMPOSED AND ARBITRATION AWARDS RENDERED

The purpose of this Regulatory Information Bulletin is to advise Members, Member Organizations and ETP Holders of certain final disciplinary actions that resulted in the imposition of sanctions for violations of the federal securities laws and the Constitution and Rules of the Exchange. This Bulletin also reports on the results of arbitration proceedings that were resolved at the Exchange.

A. Disciplinary Sanctions Imposed During the Period April 1, 2002 Through September 30, 2002

The Exchange Regulatory Staff resolved the following matters pursuant to the Minor Rule Plan:

EQUITIES:

- ES000427-1 & ES000515-1 A Member was fined Three Hundred Dollars (\$300) and issued an Official Warning for violating the Seller Responsible for Recording and Duty of Seller Rules and the Time Stamping of Trade Tickets Equity Floor Procedure Advice. (PCX Rules 5.12(a) and 5.13(c) and EFPA 3-A.)
- ES020129-1 A Member was fined Five Hundred Dollars (\$500) for violating the Short Sale Rule. (PCXE Rule 7.40.)
- ES990709-1 A Member was fined Five Hundred Dollars (\$500) for violating the Short Sale Rule. (PCX Rule 5.18.)
- ES011109-1 A Member was fined Five Hundred Dollars (\$500) for violating the Conduct on the Equity Trading Floor Equity Floor Procedure Advice. (EFPA 1-B.)

OPTIONS:

- OE0209121 A Member was fined Seven Hundred Seventy Seven Dollars (\$777) for destroying PCX property. (PCX Rule 6.2(c)(2)(A).)
- OE0203121 A Member Organization's Clerk was fined Five Hundred Dollars (\$500) for acting in an unprofessional manner. (PCX Rule 6.2(c)(2)(A)(ii).)
- OS0105172 A Member was fined Five Hundred Dollars (\$500) for acting in an unprofessional manner on the Options Floor. (PCX Rule 6.2(c)(2)(A)(iv).)
- OS0105172 A Member was fined Five Hundred Dollars (\$500) for using abusive or indecorous language on the Options Floor. (PCX Rule 6.2(c)(2)(A)(iv).)
- OS0201073 A Member was fined Five Hundred Dollars (\$500) for acting in an unprofessional manner on the Options Floor. (PCX Rule 6.2(c)(2)(A)(iv).)
- OS0205223 A Member was fined Five Hundred Dollars (\$500) for making unprofessional comments while on the Options Floor. (PCX Rule 6.2(c)(2)(A).)
- OS0010133 A Member was fined Five Hundred Dollars (\$500) for acting in an unprofessional manner on the Options Floor. (PCX Rule 6.2(c)(2)(A)(ii).)

- OS0103075 A Member was fined Two Thousand Dollars (\$2,000) for engaging in a physical altercation and acting in an unprofessional manner on the Options Floor. (PCX Rule 6.2(c)(2)(A)(ii).)
- OS0001187 A Member was fined Two Hundred Fifty Dollars (\$250) for failing to contribute to the maintenance of a fair and orderly market. (PCX Rule 6.37.)

- OS0011101 A Member was fined One Thousand Dollars (\$1,000) for failing to contribute to the maintenance of a fair and orderly market. (PCX Rule 6.37(a).)
- OS0106291 Five Members were fined Two Hundred Fifty Dollars (\$250) each for failing to meet the 60% in-person trading requirement. (PCX Rule 6.37(d), Commentary .07.)
- OS0106291 A Member Firm was fined Two Hundred Fifty Dollars (\$250) for its Market Makers' failure to meet the 60% in-person trading requirement. (PCX Rule 6.37(d), Commentary .07.)
- OS0004031 A Member Firm was fined Two Hundred Fifty Dollars (\$250) for its Floor Broker's failure to use due diligence in the execution of an order. (PCX Rule 6.46(a).)
- OS0004031 A Member was fined Two Hundred Fifty Dollars (\$250) for failing to use due diligence in the execution of an order. (PCX Rule 6.46(a).)
- OS0105211 A Member was fined Five Hundred Dollars (\$500) for failing to use due diligence in the execution of an order. (PCX Rule 6.46(a).)
- OS0108281 A Member was fined One Thousand Dollars (\$1,000) for failing to use due diligence in the execution of an order. (PCX Rule 6.46(a).)
- OS0102121 A Member was fined Two Hundred Fifty Dollars (\$250) for failing to use due diligence in the execution of an order. (PCX Rule 6.46(a), Commentary .05.)
- OS0104302 A Member was fined One Thousand Dollars (\$1,000) for failing to use due diligence in the execution of an order. (PCX Rule 6.46(a), Commentary .05.)
- OS0107134 A Member Firm was fined Five Hundred Dollars (\$500) for its Floor Broker's mishandling of broker-dealer orders by marking tickets as customer orders. (PCX Rule 6.66(c).)
- OS0202252 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)
- OS0107173 A Member was fined One Hundred Dollars (\$100) for failing to report timely an option transaction. (PCX Rule 6.69, Commentary .02.)
- OS0104023 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)
- OS0204103 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)
- OS0205063 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)
- OS0201409 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)
- OS0111262 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)
- OS0201402 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)
- OS0201414 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0202256 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0204102 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

RB-02-xx
December 11, 2002
Page Three

OS0205313 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0105292 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0204105 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0109101 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0205068 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0201406 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0204106 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0202257 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0205069 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0201413 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0205311 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0205612 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0204104 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0205315 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0203072 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0206204 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

OS0202258 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)

- OS0204107 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)
- OS0206201 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)
- OS0152311 A Member was fined One Hundred Dollars (\$100) for failing to report timely options transactions. (PCX Rule 6.69(a).)
- OS0203076 A Member was fined Two Hundred Fifty Dollars (\$250) for failing to report timely options transactions. (PCX Rule 6.69(a).)

RB-02-xx
December 11, 2002
Page Four

- OS0001184 A Member was fined Five Hundred Dollars (\$500) for failing to honor guaranteed markets. (PCX Rule 6.86(a).)
- OS0010274 LOWELL PETERS was fined Three Thousand Five Hundred Dollars (\$3,500) for failing to furnish testimony, documentary materials, or other information requested by the Exchange. (PCX Rule 10.2(b).)

Summary Sanctions issued by PCX Options Floor Officials pursuant to the Minor Rule Plan:

- OS0204017 KANIN FALK was fined Four Thousand Dollars (\$4,000) for engaging in physical contact and disruptive behavior on the Options Floor. (PCX Rule 6.2(c)(2)(A)(iii), and OFPA H-1.)
- OS0205061 A Member was fined Five Hundred Dollars (\$500) for using abusive or indecorous language on the Options Floor. (PCX Rule 6.2(c)(2)(A)(iv).)
- OS0207101 A Member was fined Five Hundred Dollars (\$500) for using abusive or indecorous language on the Options Floor. (PCX Rule 6.2(c)(2)(A)(iv).)
- OS0208133 A Member was fined Five Hundred Dollars (\$500) for using abusive or indecorous language on the Options Floor. (PCX Rule 6.2(c)(2)(A)(iv).)
- OS0207291 A Member was fined Five Hundred Dollars (\$500) for using abusive or indecorous language on the Options Floor. (PCX Rule 6.2(c)(2)(A)(iv).)
- OS0207292 A Member was fined Five Hundred Dollars (\$500) for using abusive or indecorous language on the Options Floor. (PCX Rule 6.2(c)(2)(A)(iv).)
- OS0209095 SAI RAO was fined Three Thousand Five Hundred Dollars (\$3,500) for engaging in a third instance of using abusive or indecorous language on the Options Floor. (PCX Rule 6.2(c)(2)(A)(iv).)
- OS0209094 TODD KRAMER-BERLLY was fined Three Thousand Five Hundred Dollars (\$3,500) for engaging in a third instance of using abusive or indecorous language on the Options Floor. (PCX Rule 6.2(c)(2)(A)(iv).)
- OS0207235 A Member was fined One Hundred Dollars (\$100) for acting in a disruptive manner by running on the Options Floor. (PCX Rule 6.2(c)(2)(D).)
- OS0205291 A Member was fined Five Hundred Dollars (\$500) for failing to log off of Auto-Ex when leaving the trading crowd for more than fifteen minutes. (PCX Rule 6.87(e)(3).)

The Ethics and Business Conduct Committee resolved the following matters through the rendering of Decisions

accepting Offers of Settlement and Consent:

OPTIONS:

- OS0010203 GEOFFREY TENNICAN consented to a censure and a fine of Three Thousand Five Hundred Dollars (\$3,500) for improperly executing an order after the close of trading and entering an order on the order book official's terminal without authorization. (PCX Rules 4.2, Commentary .01 and 6.2(c)(2)(A)(ii).)
- OS0101171 JULIA OVERS consented to a censure and a fine of Four Thousand Dollars (\$4,000) for failing to promptly open an options issue and to contribute to the maintenance of a fair and orderly market. (PCX Rules 4.2, 6.37(a), and 6.64(b).)
- OS0103265 DAVID YAKAITIS consented to a censure and a fine of Five Thousand Dollars (\$5,000) for failing to promptly open options for trading. (PCX Rules 4.2, 6.64(b), and 6.82(c).)

- OS9910076 CASEY SECURITIES, INC. consented to a fine of Twenty- Five Thousand Dollars (\$25,000) for
OS9910132 violating numerous floor broker obligations including: (1) due diligence, (2) only allowing members
OS9912161 to transact business, and (3) ascertaining and properly announcing account origin.
OS9912222 (PCX Rules 4.2, 6.2(a), 6.46(a), 6.47(a), 6.66(c), 6.69, 6.73, 6.86(b) and 10.1(a).)
OS9912304
OS9904112
OS0002145
OS0002148
OS0002284
OS0002285
OS0006194
OS0006195
OS0010092
OS0010132
OS0008312
OS0111162
OS0002144
- OS0010133 BRIAN GEARY consented to a censure, a fine of Seven Thousand Five Hundred Dollars (\$7,500), and a
12-month prohibition from serving on the Ethics and Business Conduct Committee and the Options
Floor Trading Committee as a member or an alternate member, or in any other capacity, for failing to
contribute to a fair and orderly market, turning off Auto-Ex without authorization, and making a willful
misstatement. (PCX Rules 6.2(c)(2)(A)(ii), 6.28(b)(7), 6.37(a), 6.82(c)(7), and 6.87(e)(4) and (5), and
PCX Constitution, Article XI, Sections 2(a), (b), and (c).)
- OS0107122 JOEL BARNETT and KNIGHT FINANCIAL PRODUCTS each individually consented to a censure and a
fine of Two Thousand Five Hundred Dollars (\$2,500) for member's failure to wear an appropriate badge
and execution of trades using another employee's acronym. (PCX Rules 6.2(d)(1), 6.2, Commentary
.01, 6.69, Commentary .01, and 10.1(a).)
- OS0001301 PATRICK HICKEY consented to a censure and a fine of Five Hundred Dollars (\$500) for failing to
maintain the legal limits on his bid-and-offer spread differential and failing to contribute to the
maintenance of a fair and orderly market. (PCX Rules 6.37(a) and (b)(1).)
- OS0006271 PETER NAPOLI consented to a censure and a fine of One Thousand Five Hundred Dollars (\$1,500) for
maintaining bids and offers inconsistent with the maintenance of a fair and orderly market. (PCX Rules
6.37(a) and (b)(1), and 6.82(c)(1) and (4).)
- OS0004031 LEE GORDON consented to a censure, a fine of Sixteen Thousand Dollars (\$16,000), restitution to the
OS0007144 Exchange of Five Thousand Dollars (\$5,000), and restitution to a customer of Four Thousand Dollars
OS0106051 (\$4,000) for, among other things, failing to conduct a fair and orderly market. (PCX Rules 6.37(a) and
OS0112133 (b)(1), 6.82(c)(1), (2), (4), (6), (7), and (10), and PCX Constitution, Article XI, Section 2(b).)
- OS0108096 ROSS GOODHEART consented to a censure and a fine of Three Thousand Dollars (\$3,000) for failing to
promptly open options for trading. (PCX Rules 6.64(b) and 6.46(b).)
- OS9801303 HEADWATERS CAPITAL, LLC consented to a censure and a fine of Five Thousand Dollars (\$5,000) for
exceeding applicable position limits. (PCX Rule 6.8(a).)
- OS0107021 MERRILL LYNCH, PIERCE, FENNER & SMITH, INC. consented to a censure and a fine of Ten Thousand
Dollars (\$10,000) for exceeding applicable position limits. (PCX Rule 6.8(a).)
- OS9910111 & BARRY GOREN and SCATTERED, L.P. consented to a censure and a fine of Three Thousand Dollars
OS9911231 (\$3,000) for transferring LMM obligations without prior approval. (PCX Rules 6.82(c)(5) and (13) and
6.82(e).)

OS0010274 MDNH TRADERS, LLC consented to a censure and a fine of Two Thousand Five Hundred Dollars (\$2,500) for failing to participate at all times in the Auto-Ex on all options in which it acted as LMM. (PCX Rule 6.82(c)(7).)

B. Arbitration Awards During the Period April 1, 2002 through September 30, 2002

Pursuant to PCX Rule 12.29(f), arbitration awards shall be made publicly available provided that the name of the customer party will not be disclosed if he/she so requests in writing. Upon written request, copies of the awards will be available from the Department of Arbitration of the Pacific Exchange.

Case Name	Diane Merrick
Case Number	01-S023
Date Received	10/16/00
Summary of Issues	Misrepresentation; breach of fiduciary duty; supervision; fraud
Amount In Dispute	\$ 4,000,000
Amount Awarded	\$0
Decision Date	09/04/02

Questions regarding disciplinary sanctions may be directed to Karen Hanson Wellman, Managing Director, Enforcement, at (415) 393-7949, and questions regarding arbitration awards may be directed to Joan Clark, Senior Arbitration Administrator, at (415) 393-4240.