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**BEFORE THE DIRECTOR OF THE DEPARTMENT OF FINANCE
OF THE STATE OF IDAHO**

In the matter of:)
)
STEPHEN T. ELLIS, applicant)
for investment adviser registration)
under the Idaho Securities Act)
)
_____)

Docket No. 2003-7-43

**ORDER DENYING APPLICATION
FOR INVESTMENT ADVISER
REGISTRATION AND NOTICE OF
OPPORTUNITY FOR A HEARING**

The Director of the Idaho Department of Finance (Director), pursuant to the Idaho Securities Act, Idaho Code § 30-1401, *et seq.*, and in particular Idaho Code § 30-1413, hereby finds as follows:

FINDINGS OF FACT

1. On or about November 17, 2003, Stephen T. Ellis (Ellis) filed an application for investment adviser registration (the application) with the Idaho Department of Finance (Department) under the Idaho Securities Act. Ellis was previously registered with the Department as an Idaho broker-dealer representative beginning December 8, 1988, and was associated with various securities firms from that date until the termination of his employment as a sales representative for U.S. Bancorp Piper Jaffray, Inc. (Piper Jaffray) on October 6, 2003.

2. Ellis represented in the application that the investment adviser registration he seeks contemplates Ellis as the owner of a sole proprietorship conducting an investment adviser business, with Ellis as the “qualifying officer.”

3. In or around 1998, the Department investigated Ellis’s conduct in the securities business. Such investigation resulted from allegations against Ellis of unauthorized trading, making unsuitable recommendations, churning, misrepresentations, omissions, and mismanagement by some of Ellis’s customers at his then employer, Merrill Lynch Pierce Fenner & Smith (Merrill Lynch). On April 13, 1995, Merrill Lynch ultimately terminated Ellis’ employment due to his unauthorized charging of service fees.

4. The Department’s 1998 investigation as referenced in paragraph 3 above resulted in an Agreement and Order by which Ellis admitted to two violations of the Idaho Securities Act: (1) recommending to a customer the purchase, sale or exchange of any security which is unsuitable to such customer, in violation of Rule 118 of the Rules Pursuant to the Idaho Securities Act (IDAPA 12.01.09.118), and (2) soliciting clients to move accounts to Piper Jaffray prior to Ellis becoming registered with the Department as a representative for Piper Jaffray, in violation of Idaho Code § 30-1406. Under the Agreement and Order Ellis was sanctioned by the Department in the form of a three day suspension of his broker-dealer representative registration, and the payment of a \$5,000 administrative fine to the Department. A copy of the 1998 Agreement and Order is attached hereto as Exhibit A.

5. After receiving and reviewing the current application, the Department again conducted an investigation into Ellis’s securities business, this time pursuant to Idaho Code § 30-1440(1) to determine whether investment adviser registration should be granted to Ellis.

6. In information provided to the Department pursuant to the investigation referenced in paragraph 5 above, the Department was informed that on October 6, 2003 Piper Jaffray terminated Ellis's employment as its sales representative due to breach of client confidentiality. The Department was also informed by Piper Jaffray that Ellis had failed to disclose to that company his outside board affiliation and outside business activity while employed as its sales representative. Further, Piper Jaffray stated that it had received a customer complaint subsequent to the termination of Ellis's employment alleging that Ellis had engaged in churning of a customer's account. According to Piper Jaffray, that complaint was later withdrawn by the complainant.

7. Question D, subsections (2), (4), and (5), of the application inquired as follows:

D. Has any other federal regulatory agency, any state regulatory agency, or any *foreign financial regulatory authority*:

...

(2) ever *found* you or any *advisory affiliate* to have been *involved* in a violation of *investment-related* regulations or statutes?

...

(4) in the past ten years, entered an *order* against you or any *advisory affiliate* in connection with *investment-related* activity?

(5) ever denied, suspended, or revoked your or any *advisory affiliate's* registration or license or otherwise prevented you or any *advisory affiliate*, by order, from associating with an *investment-related* business or restricted your or any *advisory affiliate's* activity?

(Emphasis in the original.) Ellis's responses to Question D, subsections (2), (4), and (5) of the application were all "No," notwithstanding the existence of the 1998 Agreement and Order with the Department, attached hereto as Exhibit A.

CONCLUSIONS OF LAW

8. Idaho Code § 30-1413 provides as follows, in pertinent part:

30-1413. Denial, suspension, revocation of registration – Grounds. -- The director may by order deny, suspend or revoke registration of any broker-dealer, salesman, investment adviser or investment adviser representative ... if he finds that the order is in the public interest and that the applicant ...:

(1) Has filed an application for registration under this section which, as of its effective date or as of any date after filing in the case of an order denying effectiveness, was incomplete in any material respect or contained any statement which was, in the light of the circumstances under which it was made, false or misleading with respect to any material fact;

...
(5) Is the subject of an order of the director denying, suspending or revoking registration as a broker-dealer, salesman, investment adviser or investment adviser representative;

...
(7) Has engaged in dishonest or unethical practices in the securities business;
...

9. Ellis's false answers to Question D, subsections (2), (4), and (5) of the application, as referenced in paragraph 7 above, constitute a basis for the Director to deny his application for investment adviser registration, pursuant to Idaho Code § 30-1413(1).

10. The 1998 Agreement and Order referenced in paragraph 4 above constitutes a basis for the Director to deny Ellis's application for investment adviser registration, pursuant to Idaho Code § 30-1413(5).

11. The termination by Piper Jaffray of Ellis's employment as a securities representative due to his breach of client confidentiality and Piper Jaffray's finding that Ellis had failed to obtain that company's approval of outside board affiliation and business activity while employed as its sales representative leads to the conclusion that Ellis has engaged in dishonest or unethical practices in the securities business, constituting the basis for denial of investment adviser registration, pursuant to Idaho Code § 30-1413(7). Piper Jaffray's representations to the Department that it had received a customer complaint alleging that Ellis churned that customer's

account, indicates that Ellis may have engaged in further dishonest or unethical practices in the securities business, notwithstanding the customer's later withdrawal of the complaint.

12. Based on the foregoing, the Director finds, pursuant to Idaho Code § 30-1413, that it is in the public interest to deny Ellis's application for investment adviser registration under the Idaho Securities Act.

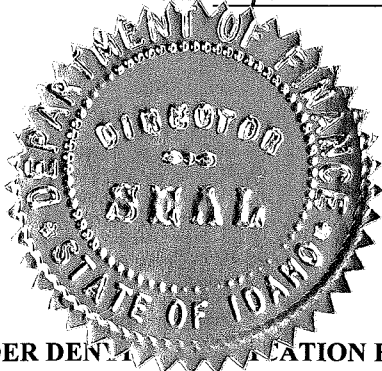
ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED that the application for investment adviser registration submitted to the Idaho Department of Finance by Stephen T. Ellis on or about November 17, 2003, is DENIED.

NOTICE

STEPHEN T. ELLIS is hereby notified, pursuant to Idaho Code § 30-1414, that an ORDER DENYING APPLICATION FOR INVESTMENT ADVISER REGISTRATION has been entered by the Director, upon the bases set forth above. If a hearing is requested in writing by Stephen T. Ellis, the applicant, within twenty (20) days of the receipt of this order and notice, this matter will be promptly set for hearing. If no hearing is requested by the applicant within twenty (20) days of the receipt of this order and notice, and none is ordered by the Director, the order shall remain in effect until it is modified or vacated by the Director. If a hearing is timely requested or ordered, the Director, after notice of and opportunity for hearing, may affirm, modify or vacate the order.

DATED this 12TH day of FEBRUARY, 2004.



GAVIN M. GEE, Director
Idaho Department of Finance

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**BEFORE THE DIRECTOR OF THE DEPARTMENT OF FINANCE
OF THE STATE OF IDAHO**

STATE OF IDAHO, Department of Finance,
Securities Bureau,

Complainant,

vs.

STEPHEN T. ELLIS,

Respondent.

Docket No. 1997-7-30

AGREEMENT AND ORDER

The Director of the Department of Finance has investigated the conduct of Stephen T. Ellis (Respondent) in the securities business. Pursuant to said investigation, it appears to the Director that violations of the Idaho Securities Act, Idaho Code §30-1401 *et seq.*, have occurred. The Director and Respondent have agreed to resolve this matter without a public hearing. Therefore, the Director deems it appropriate and in the public interest that this Agreement and Order be entered. Respondent consents to the entry of this Agreement and Order.

BACKGROUND

1. Respondent was licensed in Idaho as a broker-dealer representative with Merrill Lynch

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from December 8, 1988 to May 12, 1995.

2. Respondent has been licensed in Idaho as a broker-dealer representative with Piper Jaffray since April 20, 1995.

3. While at Merrill Lynch, Respondent was the subject of nine disciplinary items beginning on April 13, 1995. These items include customer complaints, and allegations by Merrill Lynch of unauthorized charging of service fees which led to Respondent's termination.

4. The above complaints generally allege unauthorized trading, unsuitable recommendations, churning, misrepresentations, omissions, and mismanagement. In particular, a customer alleged an unsuitable recommendation relating to the use of a margin account as financing in the construction of a home.

5. Since becoming employed by Piper Jaffray, Respondent has been the subject of one customer complaint alleging unauthorized transactions within a customer account.

FINDINGS OF VIOLATIONS

6. Respondent recommended to a client that a margin account be used as financing for new home construction. The margin account was collateralized by illiquid stock in Hecla Mining Company. Such stock was subject to resale restrictions while being used as collateral for the margin account. Respondent did not have reasonable grounds to believe that the recommendation was not unsuitable for the customer on the basis of information furnished by the customer. The recommendation was thus unsuitable as defined in Rule 118 of the rules pursuant to the Idaho Securities Act (IDAPA 12.01.08.118). Idaho Code §30-1413(7) provides grounds for suspension of a representative's registration for making unsuitable recommendations.

7. Respondent actively solicited clients to move their accounts to Piper Jaffray prior to becoming licensed as a registered representative for Piper Jaffray. Idaho Code §30-1406 requires the registration of broker-dealer representatives prior to transacting securities business in Idaho. Respondent violated Idaho Code §30-1406.

REMEDIES


8. Respondent admits the allegations contained in paragraphs 6 and 7 of this Agreement and Order.

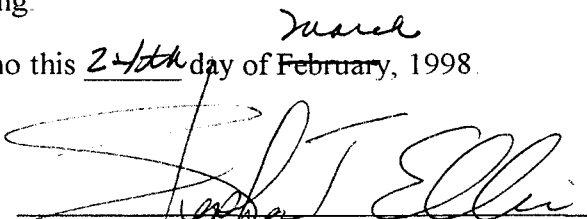
9. Respondent agrees to a three (3) day suspension of his broker-dealer representative registration. Such suspension will commence the first business day after the date this order is entered by the Director.


10. Respondent agrees to pay a fine to the Department in the amount of \$5,000 within thirty (30) days of the date of this Agreement and Order.

11. Respondent agrees to comply with the provisions of the Idaho Securities Act in future securities transactions. Respondent further agrees that, should the Director find within twelve months from the date of this Agreement and Order that Respondent has committed any additional violations of the Act, the Department may use all allegations contained in the Agreement and Order, and any other allegations concerning violations of the Act by Respondent while employed at Merrill Lynch or Piper Jaffray, in any subsequent proceeding.

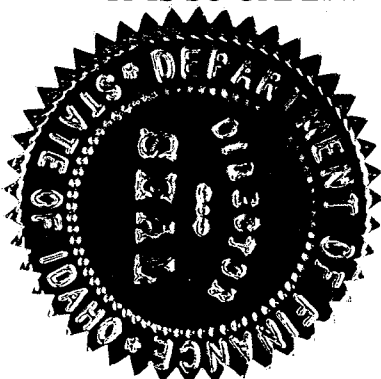
DONE AND DATED at Boise, Idaho this 24th ^{March} day of February, 1998.

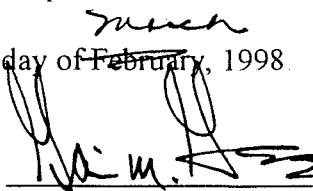

PETER C. MARSHALL
Marshall, Batt & Fisher
Attorney for Respondent


STEPHEN T. ELLIS


MARILYN T. SCANLAN
Bureau Chief, Securities Bureau
Department of Finance

IT IS SO ORDERED this 24th ^{March} day of February, 1998.




GAVIN M. GEE
Director of Finance
State of Idaho