

**STATE OF ILLINOIS  
SECRETARY OF STATE  
SECURITIES DEPARTMENT**

**IN THE MATTER OF: JAMES E. HARDY**

**FILE NO. 0400394**

**NOTICE OF HEARING**

TO THE RESPONDENT: James E. Hardy  
(CRD#: 236950)  
826 Babler Park Drive  
Chesterfield, Missouri 63005

C/o Stifel, Nicolaus & Company Incorporated  
501 North Broadway  
St. Louis, Missouri 63102

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act") and 14Ill. Adm. Code 130, Subpart K, a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602, on the 16<sup>th</sup> day of March, 2005 at the hour of 10:00 a.m. or as soon as possible thereafter, before James G. Athas, Esq. or such other duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order shall be entered revoking James E. Hardy's (the "Respondent") registration as a salesperson in the State of Illinois and/or granting such other relief as may be authorized under the Act including but not limited to the imposition of a monetary fine in the maximum amount pursuant to Section 11.E(4) of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for such proposed action are as follows:

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 August 26, 2003 an Exchange Hearing Panel of the New York Stock Exchange Inc. (NYSE) accepted a Stipulation of Facts and Consent

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to Penalty entered into between the Exchange's Division of Enforcement and the Respondent (Decision) in File No. 03-162 which imposed the following sanctions:

- a. censure; and
  - b. three week suspension from the membership, allied membership, approved person status, and employment or association in any capacity with any member or member organization.
3. That the Decision found:
- a. During the period December 14, 1999 through January 6, 2000, the Respondent solicited numerous individuals to purchase memberships in an intranet company (the "Company") (An intranet is a network of computers that can be accessed only by authorized users such as a group of paid subscribers.) The Company represented to prospective members that it would recruit vendors to buy and sell discounted merchandise through its website. The Respondent had become a member of the Company in December 1999 and under the terms of the membership was entitled to receive a share of the membership fees of each individual he recruited. In addition, his level of compensation would be maximized if he signed up at least 39 members. In total, approximately 74 individuals, including 36 Firm customers, purchased memberships in the Company or applied to do so based upon his solicitations. During this period, he never disclosed to or sought the approval of the Firm for this outside business activity. In January 2000, the Company was shut down by the state of Florida for allegedly operating an illegal pyramid scheme. He never received any compensation from the Company.
  - b. On or about December 14, 1999 the Respondent first learned about the Company.
  - c. The Respondent read about the Company and learned that it was an intranet company that represented it would set up and maintain a family oriented website that would be free of pornography and violence. The Company also represented that it would recruit vendors to buy and sell products on its website at discounted prices to members.
  - d. The Company further represented that once an individual became a member upon payment of a \$4295.00 fee, that individual could

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solicit new potential members and receive a share of any membership fee they paid.

- e. Upon becoming a member, the Respondent learned that his compensation from the Company was based on the number of members he recruited and that it would be maximized if he signed up 39 or more new members.
- f. During the period of December 14, 1999 through January 6, 2000, the Respondent attempted to recruit new members by discussing the Company with Firm customers and others.
- g. Over the course of approximately three weeks, the Respondent solicited numerous individuals to become Company members. As a result of his solicitations, 74 individuals purchased or applied to purchase company memberships. Thirty-six of those individuals were Firm customers.
- h. The Respondent completed the paperwork on behalf of the individuals who agreed to purchase memberships, including obtaining their credit card information for payment of the fee, and then submitted the forms to the Company.
- i. The Respondent never disclosed to the 36 Firm customers who purchased Company memberships that he would receive any portion of the fees they paid nor did he provide them with any of the Company documents that described the company or the compensation plan.
- j. Throughout this period the Respondent did not reveal to his Branch manager or the Compliance Department of the Firm his involvement with the Company nor did he seek their permission to participate in that outside business activity.
- k. On January 6, 2000, an article appeared in a Florida newspaper reporting that the Florida Attorney General's office had shut down the Company and filed criminal charges alleging an illegal pyramid scheme.
- l. A relative of one of the Respondent's Firm customers called his supervisor on the same day that the article appeared to inquire about the Company and his involvement with it.

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- m. As a result, the Firm conducted an inquiry into the Respondent's connection to the Company and then terminated his employment.
  - n. Because the Company was shut down shortly after the Respondent began his solicitations, many of the 74 individuals who submitted memberships forms were never charged. Furthermore, there is no evidence that he received any compensation from the Company.
  - o. As a result of the conduct that is the subject of this Stipulation and Consent, the Respondent was required to contribute \$23,000 to the State of Missouri's Investor Education Fund, required to reimburse individuals who paid for memberships and was subjected to additional requirements.
  - p. That by virtue of the foregoing, the Respondent violated Exchange Rule 346(b) by engaging in outside business without written employer consent and solicited customers to purchase memberships in an outside business in which he had an undisclosed interest.
- 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 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.

You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130) (the "Rules"), to file and answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be requested by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute

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default, unless any Respondent has upon due notice moved for and obtained a continuance.

A copy of the Rules, promulgated under the Act and pertaining to hearings held by the Office of the Secretary of State, Securities Department, is included with this Notice.

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

DATED: This 31<sup>st</sup> day of January 2005.



JESSE WHITE  
Secretary of State  
State of Illinois

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