

STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF: PAUL J. PALLO)
_____))

FILE NO. 0700435

SECOND CORRECTED NOTICE OF HEARING

TO THE RESPONDENT: Paul J. Pallo (CRD#: 1068684)
349 Forest Road
Mahwah, New Jersey 07430

c/o Stifel, Nicolaus & Company Incorporated
501 North Broadway
Saint 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 14 Ill. Adm. Code 130, Subpart K, a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602, on the 09th of January, 2008 at the hour of 10:00 a.m. or as soon as possible thereafter, before James L. Kopecky, 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 denying Paul J. Pallo (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 on September 10, 2007 Stifel, Nicolaus & Company Incorporated, a registered dealer, filed a form U-4 application for registration of the Respondent as a salesperson in the State of Illinois pursuant to Section 8 of the Act.
2. That on February 19, 2004, NASD entered Order Accepting Offer Of Settlement submitted by the Respondent (Order) regarding DISCIPLINARY PROCEEDING NO. C9B030051 which sanctioned the Respondent as follows: a. suspended from associating with any NASD member firm in any capacity for ten (10) business days; and b. pay a fine

of \$10,000, which includes disgorgement of commissions of \$5,000.

Violation of NASD Conduct Rules 2110 and 2310 and IM-2310-2

- a. The Respondent recommended and effected the purchase of approximately \$379,000 in mutual fund Class B shares in the Staten Securities customer account of H.H. (and his wife), without having reasonable grounds for believing that such transactions were suitable for H.H. (and his wife) in view of the amount of Class B shares purchased and nature of the recommended transactions, and in light of H.H.'s (and his wife's) financial situation, investment objectives, circumstances, and needs.
- b. The Respondent's recommendations in this account were unsuitable in that he should have recommended that customer H.H. (and his wife) purchase Class A mutual fund shares given the amount invested. Had Class A shares been recommended instead of Class B shares, these customers would have:
 - i. been eligible to receive breakpoints on *Class A* share purchases;
 - ii. paid lower 12b-1 *fees*; and
 - iii. avoided *being* subject to contingent deferred sales charges.
- c. From in or about August 9, 2001 through in or about September 6, 2001, the Respondent recommended and effected the purchase of approximately \$309,000 in mutual fund Class B shares in the Staten Securities customer account of W.M., without having reasonable grounds for believing that such transactions were suitable for W.M. in view of the amount of Class B shares purchased and nature of the recommended transactions, and in light of W.M.'s financial situation, investment objectives, circumstances, and needs.
- d. The Respondent's recommendations in this account were unsuitable in that he should have recommended that customer W.M. purchase Class A mutual fund shares given the amounts invested. Had Class A shares been recommended instead of Class B shares, W.M. would have:

- i. been eligible to receive breakpoints on Class A share purchases;
 - ii. paid lower 12b-1 fees; and
 - iii. avoided being subject to contingent deferred sales charges.
 - e. In or about July 30, 2001, the Respondent recommended and effected unsuitable mutual fund switch transactions in the Staten Securities customer account of J.M., without having reasonable grounds for believing that such transactions were suitable for J.M. in view of the nature of the recommended transactions, and in light of J.M.'s financial situation, investment objectives, circumstances, and needs.
 - f. The Respondent recommended that customer J.M. sell two Class A mutual funds: Liberty NY Tax Exempt and Putnam NY Tax Exempt and purchase an equivalent amount (approximately \$174,000) of Class A mutual fund shares of Van Kampen Tax Free Income and Franklin NY Tax Free Income the following day. JM. Incurred unnecessary expenses because the investment objectives of the ClassA shares that were sold were nearly identical to the Class A shares that were purchased. All of the subject funds sought to invest in investment grade municipal bonds exempt from federal, state (New York) and city (New York) taxes.
 - g. As a result of the switches, J.M. paid a front-end sales load of approximately \$ 7,200, which was paid to Staten Securities as commission for these transactions.
 - h. As a result of this conduct, the Respondent violated NASD Conduct Rules 2110 and 2310 and IM-2310-2.
3. That Section 8.E(1)(j) of the Act provides, inter alia, that the registration of a salesperson may be denied 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.
 4. That the NASD is a self-regulatory organization as specified in Section 8.E(1)(j) of the Act.

Second Corrected Notice of Hearing

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5. That by virtue of the foregoing, the Respondent's registration as a salesperson in the State of Illinois is subject to denial 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 an 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 represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

The Rules promulgated under the Act and pertaining to Hearings held by the Office of the Secretary of State, Securities Department may be viewed online at <http://www.cyberdriveillinois.com/departments/securities/lawrules.html>.

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

ENTERED: This 29th day of November 2007.



JESSE WHITE
Secretary of State
State of Illinois

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