

STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF: MORGAN STANLEY DW, INC.

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)
) FILE No. 0300627
)

NOTICE OF HEARING

TO THE RESPONDENT: Morgan Stanley DW, Inc.
Attn: Mr. Donald G. Kempf, Jr.
Executive Vice President
Chief Legal Officer and Secretary
1585 Broadway
New York, NY 10036

C/O Keith Shake
Attorney at Law
201 N. Illinois St.
Suite 1000
P.O. Box 44961
Indianapolis, IN 46244-0961

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953, [815 ILCS 5/1 et seq.] (the "Act") and 14 Ill. Adm. Code 130, Subpart K, a public hearing will be held at 300 West Jefferson St. Suite 300A, Springfield, Illinois 62702, on the 18th day of May, 2005 at the hour of 10:00 a.m., or as soon thereafter as counsel may be heard, before Jon K. Ellis, or such other duly designated Hearing Officer of the Secretary of State. A copy of the Rules under the Act pertaining to contested cases is attached to this Notice.

Said hearing will be held to determine whether an Order of Revocation should be entered against Morgan Stanley DW, Inc., (the "Respondent") in the State of Illinois and granting such other relief as may be authorized under the Act including but not limited to imposition of a monetary fine in the maximum amount pursuant to Section 11 of the Act, payable within ten (10) days of the entry of the Order.

The grounds for such proposed action are as follows:

Count I (8.E.1(e) and (m) resulting in violations of Section
12.A, 12.C and 12.D)

Notice of Hearing

-2-

1. Morgan Stanley DW, Inc. ("Morgan Stanley") is a currently registered Illinois dealer and has been so registered for all times relevant.
2. That John Francis Zelasko ("Zelasko") was an Illinois registered salesperson of Morgan Stanley for the time periods of April 11, 2000 through December 12, 2001 working from a Morgan Stanley branch office previously located at 11611 North Meridian and currently located at 280 E. 96th St. Indianapolis, IN.
3. That William Joseph Kinman ("Kinman") was an Illinois registered salesperson of Morgan Stanley from September 21, 1998 to the present working from the Morgan Stanley branch office located at 280 E. 96th St. Indianapolis, IN.
4. That Kevin Lane Doss ("Doss") was an Illinois registered salesperson of Morgan Stanley for the time periods of April 28, 1995 through December 31, 1995. He was also the Sales Manager for the 280 E. 96th St. Indianapolis, IN branch office of Morgan Stanley and a supervisor for Kinman and Zelasko.
5. Approximately, January 15, 2000, Zelasko opened Morgan Stanley brokerage account 337-070742 (the "Account") for Illinois resident WLS and non-Illinois resident LLS in the name of WLS and LLS, related family members, after meeting with WLS and LLS the day before.
6. Approximately, January 15, 2000, Zelasko, Kinman, and Doss met regarding account 337-070742. At this meeting Doss advised Kinman that the accountholders, WLS and LLS, wanted to trade in options but that Zelasko did not have the required license to trade in options. Because Kinman did have this license he would be assigned as the registered representative for the account.
7. Subsequently, Kinman, an Illinois registered salesperson, was assigned as the registered representative for the account.
8. That during the time period of January 18, 2000 through March 31, 2000 Zelasko discussed, recommended, and/or took orders for the following securities transactions for WLS in the Account:

Recommended buy transactions to WLS on 18
January 2000;

Notice of Hearing

-3-

Recommended buy transaction to WLS on 25 January 2000 and discussed purchases of other securities for the account;

Discussed on January 27, 2000 future purchases of Initial Public Offerings (IPOs) and WLS advised Zelasko to inform him of any future IPOs that might be available for WLS to purchase;

Discussed on February 1, 2000 the purchase of a particular securities transaction; Zelasko recommended that the security be purchased for no more than \$50 per share and recommended a purchase of 50 shares;

Discussed on February 2, 2000 the purchase of 150 shares of a security which WLS agreed to buy;

Discussed on February 5, 2000 purchase of IPOs; WLS advised Zelasko to buy what IPOs he can and to leave a message about what was purchased;

Recommended on February 15, 2000 Buy transaction of more shares of a security held by WLS because its price was down, WLS agreed;

Discussed on February 16, 2000 the purchase of 75 shares in a security which WLS agreed to. The purchase was to be paid for by the sale of another security holding;

On February 24, 2000 purchased 100 shares of stock without first discussing with WLS, this transaction was based upon authority granted on February 5, 2000;

On February 29, 2000 recommended the sale of security to cover the cost of a previously purchased security;

On March 1, 2000 discussed purchase of shares of a security which were later purchased on March 2, 2000;

Notice of Hearing

-4-

Recommended on March 3, 2000 to buy another 100 shares of a previously purchased security in order to dollar average the purchase costs;

Recommended on March 7, 2000 the sale of several securities holding which was agreed to by WLS;

Recommended on March 13, 2000 the sale of another security which was agreed to by WLS;

Recommended on March 15, 2000 the sale of a security holding which was agreed to by WLS;

Discussed on March 22, 2000 the purchase of another security which WLS agreed to purchase;

Discussed on March 23, 2000 the purchase of another security which WLS agreed to purchase;

Recommended on March 29, 2000 the purchase of security which was agreed to by WLS; and

Recommended sale of security on March 31, 2000 which was agreed to by WLS.

9. All of the transactions as described in Paragraph 8 above took place while Zelasko was not registered in the State of Illinois as a Salesperson.
10. Section 8.A of the Illinois Securities Act, 816 ILCS 5/1 et seq. (the Act) provides, inter alia, that except as otherwise provided in subsection A, every salesperson shall be registered as such with the Secretary of State.
11. Section 12.A of the Act provides, inter alia, that it shall be a violation of the provisions of the Act for any person to offer or sell any security except in compliance with the provisions of the Act.
12. Section 12.C of the Act provides, inter alia, that it shall be a violation of the provisions of the Act for any person to act as a salesperson unless registered as such, where such registration is required under the provisions of the Act.

Notice of Hearing

-5-

13. That Section 12.D of the Act provides, inter alia, that it shall be a violation of the Act for any person to fail to file with the Secretary of State any document required to be filed under any provision of the Act.
14. That at all times relevant hereto, Morgan Stanley and John Francis Zelasko failed to file an application for registration of Zelasko as a salesperson with the Secretary of State and he was not registered with the Secretary of State during the time period of January 15, 2000 through March 31, 2000.
15. That by virtue of the foregoing, Morgan Stanley and John Francis Zelasko have violated Sections 12.A, 12.C and 12.D of the Act.
16. That Section 11.E(2) of the Act provides, inter alia, that if the Secretary of State shall find that any person has violated subsection C or D of Section 12 of the Act, the Secretary of State may by written order prohibit the person from offering or selling any securities in this State.
17. That Section 11.E(4) of the Act provides, inter alia, that if the Secretary of State, after finding that any provision of the Act has been violated, may impose a fine as provided by rule, regulation or order not to exceed \$10,000.00 for each violation of the Act.
18. That by virtue of the foregoing, Morgan Stanley is subject to a fine of up to \$10,000.00 per violation and an order which permanently prohibits the Respondent from offering or selling securities in the State of Illinois.
19. Section 8.E.1(e) of the Act provides, inter alia, that subject to the provisions of subsection F of Section 11 of the Act, the registration of a dealer or a salesperson may be suspended or revoked if the Secretary of State finds that the dealer or salesperson (i) has failed reasonably to supervise the securities activities of any of its salespersons or other employees and the failure has permitted or facilitated a violation of Section 12 of the Act or (ii) is offering or selling or has offered or sold securities in this States through a salesperson other than a registered salesperson;
20. Section 8.E.1(m) of the Act provides, inter alia, that subject to the provisions of subsection F of Section 11

Notice of Hearing

-6-

of the Act, the registration of a dealer or a salesperson may be suspended or revoked if the Secretary of State finds that the dealer or salesperson has conducted a continuing course of dealing of such nature as to demonstrate an inability to properly conduct the business of the dealer, limited Canadian dealer, salesperson, investment adviser or investment adviser representative.

21. By virtue of the foregoing, the Respondent is subject to the entry of an Order which revokes its dealer registration in the State of Illinois pursuant to the authority provided under Sections 8.E.1 (e) and (m) of the Act.

Count II (8.E.1(e) and (m) resulting in violations of Section 12.A and 12.F)

1. Morgan Stanley DW, Inc. ("Morgan Stanley") is a currently registered Illinois dealer and has been so registered for all times relevant.
2. That John Francis Zelasko ("Zelasko") was an Illinois registered salesperson of Morgan Stanley for the time period of April 11, 2000 through December 12, 2001 working from a Morgan Stanley branch office previously located at 11611 North Meridian and currently located at 280 E. 96th St. Indianapolis, IN.
3. That Zelasko opened Morgan Stanley brokerage account 337-012621 for WLS and CS, related family members, as joint tenants.
4. That the account suitability information for WLS and CS disclosed income of \$30,000, a net worth of \$200,000 and liquid net worth of \$10,000 for the accountholders. Additionally, the new account form disclosed that WLS was single and 58 years old with an investment objective of capital appreciation.
5. That account statements for account 337-012621 disclosed the following monthly margin balances:

| | |
|--------------------|------------|
| May 31, 2000 | -58,784.15 |
| July 31, 2000 | -64,479.86 |
| August 31, 2000 | -65,155.29 |
| September 30, 2000 | -74,416.48 |

Notice of Hearing

-7-

6. That Zelasko recommended the purchase of securities on margin during the time period of May 31, 2000 through September 30, 2000 and increasing the margin debt. Despite that at the end of September 2000, the margin debt in account 337-012621 was over seven times the liquid net worth reported by WLS and CS and over two times the net income.
7. That Rule 130.850 of the Rules and Regulations of the Illinois Securities Department, 14 Admin Code 130.100 et seq., states that no dealer or salesperson shall effect transactions for any customer's accounts which are excessive in size or frequency or unsuitable in view of the financial resources of the customer.
8. At all times relevant, Zelasko made recommendations to effect securities transactions which were unsuitable in view of the financial resources of WLS and CS.
9. Section 12.A of the Act provides, inter alia, that it shall be a violation of the provisions of the Act for any person to offer or sell any security except in compliance with the provisions of the Act.
10. Section 12.F of the Act provides, inter alia, that it shall be a violation of the Act for any person to engage in any transaction, practice or course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchase or seller thereof.
11. That by virtue of the foregoing, John Francis Zelasko has violated Sections 12.A and 12.F of the Act.
12. Section 8.E.1(e) of the Act provides, inter alia, that subject to the provisions of subsection F of Section 11 of the Act, the registration of a dealer or a salesperson may be suspended or revoked if the Secretary of State finds that the dealer or salesperson (i) has failed reasonably to supervise the securities activities of any of its salespersons or other employees and the failure has permitted or facilitated a violation of Section 12 of the Act or (ii) is offering or selling or has offered or sold securities in this States through a salesperson other than a registered salesperson;
13. Section 8.E.1(m) of the Act provides, inter alia, that subject to the provisions of subsection F of Section 11

Notice of Hearing

-8-

of the Act, the registration of a dealer or a salesperson may be suspended or revoked if the Secretary of State finds that the dealer or salesperson has conducted a continuing course of dealing of such nature as to demonstrate an inability to properly conduct the business of the dealer, limited Canadian dealer, salesperson, investment adviser or investment adviser representative.

14. By virtue of the foregoing, the Respondent is subject to the entry of an Order which revokes its dealer registration in the State of Illinois pursuant to the authority provided under Sections 8.E.1 (e) and (m) 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 or a Special Appearance pursuant to Section 130.1107 of the Rules, or other responsive pleading within thirty days of the receipt of this notice. Your failure to do so within the prescribed time shall be deemed an admission of the allegations contained in the Notice of Hearing and waives your right to a 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.

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 Respondents.

Dated this 15th day of March, 2005.



Jesse White
Secretary of State
State of Illinois

Notice of Hearing
-9-

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