

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

**IN THE MATTER OF: RALPH W. RUSSELL**

**FILE NO. 0400304**

**NOTICE OF HEARING**

TO THE RESPONDENT:

Ralph W. Russell  
(CRD #: 1256798)  
2487 Legacy Drive  
Aurora, Illinois 60504

C/o Waterstone Financial Group, Inc.  
500 Park Boulevard  
Suite 800  
Itasca, Illinois 60143

C/o Mark R. Borrelli  
Attorney at Law  
Shefsky & Froelich Ltd.  
444 N. Michigan Avenue  
Chicago, Illinois 60611

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 17 North State Street, Suite 1266, Chicago, Illinois 60602, on the 6<sup>th</sup> day of October, 2004, at the hour of 10:00 a.m., or as soon as possible thereafter, before Soula J. Spyropoulos, 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 Ralph W. Russell's (the "Respondent") registration as a salesperson and as an investment advisor representative 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

## Notice of Hearing

- 2 -

the maximum amount pursuant to Section 11.F 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 and as an investment advisor representative in the State of Illinois pursuant to Section 8 of the Act.
2. That on May 12, 2004 an Exchange Hearing Panel of the New York Stock Exchange Inc. (NYSE) accepted a Stipulation of Facts and Consent to Penalty entered into between the Exchange's Division of Enforcement and the Respondent (Decision) in File No. 04-77 which imposed the following sanctions:
  - a. Censures; and
  - b. Barred for a period of five years from membership, allied membership, approved person status, and from employment or association in any capacity with any member or member organization.
3. That the Decision found:
  - a. The Respondent violated Exchange Rule 346(b) by engaging in an outside business activity without making a written request to and obtaining the prior written consent of his member firm employer. He also engaged in conduct inconsistent with just and equitable principles of trade by (1) commingling customer funds obtained in connection with such outside business activity with his own funds, (ii) wrongfully spending such funds for purposes other than such outside business, and (iii) making a misstatement to his member firm employer in connection with his participation in the aforementioned outside business activity.
  - b. During the Fall of 1999, the Respondent, without the knowledge or approval of the Firm, began working on the creation of a website relating to investing and finance. Income from the website was to come from, among other things, subscription fees and advertising sales. He reserved the domain name "ralphrussell.com," and subsequently prepared a written business plan and obtained a written proposal from a website design company in connection with the website venture.
  - c. By early 2000, the Respondent had discussed the proposed website with various friends and customers of the Firm, a number of which

Notice of Hearing

- 3 -

had expressed interest in investing. He had also mailed the business plan to a number of such individuals. Soon thereafter, he received funds in checks payable to Russell (ranging in amounts between \$5,000 and \$50,000 each) from a number of investors.

- d. Upon receipt of the funds from the investors, the Respondent deposited such funds into certain personal securities accounts that he and/or his wife maintained at the Firm. In doing so, he commingled investor funds with his personal funds.
- e. On June 8, 2000, the Respondent formed a corporation whose purpose was to own and operate the business of ralphrussell.com. He subsequently opened an account at the Firm in the name of his corporation.
- f. On or about June 16, 2000, the Respondent made the first of what would be four payments to the aforementioned website designer. These payments totaled \$45,000.
- g. On or about August 8, 2000, the Respondent sought approval from the Firm to engage in an outside business venture involving the website. The request was never approved by the Firm.
- h. Nonetheless, the Respondent continued to work on the website venture and continued to solicit funds for the venture from customers of the Firm.
- i. On or about September 11, 2000, the Respondent completed and signed a Firm compliance questionnaire. The Firm questionnaire asked, among other things, whether he had conducted any non-Firm activities from the Firm's offices or raised capital for any entity outside the scope of the Firm's business. He answered no to each of these questions, which was false.
- j. By October 2000, nine individuals invested with the Respondent a total of \$133,000 in the website venture. Eight of these individuals were customers of the Firm.
- k. On one or more occasions, the Respondent expended funds from the investors for purposes other than the website venture.
- l. In or about October 2000, the Firm discovered the Respondent's misconduct as set forth above. His employment with the Firm terminated on November 10, 2000.

Notice of Hearing

- 4 -

- m. During 2001, the Respondent reimbursed the investors with respect to all the funds that they had invested with him.
4. That Section 8.E(1)(j) of the Act provides, inter alia, that the registration of a salesperson and investment advisor representative may be revoked if the Secretary of State finds that such salesperson and investment advisor representative 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 and investment advisor representative 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 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.

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.

Notice of Hearing

- 5 -

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

DATED: This 18<sup>th</sup> day of August 2004.

A handwritten signature in black ink, appearing to read "Jesse White", with a horizontal line underneath it.

JESSE WHITE  
Secretary of State  
State of Illinois

Attorney for the Secretary of State:  
Daniel Tunick  
Office of the Secretary of State  
Illinois Securities Department  
17 North State Street, Suite 1266  
Chicago, Illinois 60602  
(312) 793-3384

Hearing Officer:  
Soula J. Spyropoulos  
6348 N. Cicero Ave  
Chicago, Illinois 60646